NATURE'S LAW

THE SECRET OF THE UNIVERSE

by

R. N. ELLIOTT

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REFERENCE INDICATIONS[1]

Reference to chapters, pages, diagrams, etc. will be indicated as follows:

(C) Chapter. For example, "C 24" means Chapter No. 24.

(D) Diagram. For example, "D 4" means Diagram No. 4.

(FSS) Numbers of the Fibonacci Summation Series

(OT) Orthodox top.

(G) Graph. For example, "G X" means "Graph X".

(P) Page. For example, "P 5" means Page 5.

(PD) "P2 D4" means Page 2, Diagram 4.

(PG) "P3 G6" means Page 3, Graph 6.

(PPD) "P4 P6 D8" means Page 4, Paragraph 6, Diagram 8.

(R) Ruling ratio of the Fibonacci Summation Series, such as .62 or reciprocal 1.62.

Publisher's Note: In the original monograph, nearly every sentence was treated as a separate paragraph and numbered. We have taken the liberty of condensing the style of arrangement for easier reading. The references to text areas by codes as described above have been eliminated.

FOOTNOTES

[1] Elliott's talent for ordering and labeling comes out even here.

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INTRODUCTION

RHYTHM IN NATURE[1]

No truth meets more general acceptance than that the universe is ruled by law. Without law it is self-evident there would be chaos, and where chaos is, nothing is. Navigation, chemistry, aeronautics, architecture, radio transmission, surgery, music — the gamut, indeed, of art and science — all work, in dealing with things animate and things inanimate, under law because nature herself works in this way. Since the very character of law is order, or constancy, it follows that all that happens will repeat and can be predicted if we know the law.

Columbus, maintaining that the world was round, predicted that a westward course from Europe must eventually bring his ships to land and despite scoffers, even among his own crew, saw his prediction realized. Halley, calculating the orbit of the 1682 comet, predicted its return which was strikingly verified in 1759. Marconi, after his studies in electrical transmission, predicted that sound could be conveyed without wires, and today we can sit in our homes and listen to musical and other programs from across the ocean. These men, as have countless more in other fields, learned the law. After becoming thus posted, prediction was easy because it became mathematical.

Even though we may not understand the cause underlying a particular phenomenon, we can, by observation, predict that phenomenon's recurrence. The sun was expected to recurrently rise at a fixed time thousands of years before the cause operating to produce this result was known. Indians fix their month by each new moon, but even today cannot tell why regular intervals characterize this heavenly sign. Spring plantings are witnessed the world over because summer is expected as next in order; yet how many planters understand why they are afforded this constancy of the seasons? In each instance the rhythm of the particular phenomenon was mastered.

Man is no less a natural object than the sun or the moon, and his actions, too, in their metrical occurrence, are subject to analysis. Human activities, while amazing in character, if approached from the rhythmical bias, contain a precise and natu-

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ral answer to some of our most perplexing problems. Furthermore, because man is subject to rhythmical procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable.

Very extensive research in connection with what may be termed human activities indicates that practically all developments which result from our social-economic processes follow a law that causes them to repeat themselves in similar and constantly recurring serials of waves or impulses of definite number and pattern. It is likewise indicated that in their intensity, these waves or impulses bear a consistent relation to one another and to the passage of time. In order to best illustrate and expound this phenomenon it is necessary to take, in the field of man's activities, some example which furnishes an abundance of reliable data and for such purpose there is nothing better than the stock exchange.

Particular attention has been given to the stock market for two reasons. In the first place, there is no other field in which prediction has been essayed with such great intensity and with so little result. Economists, statisticians, technicians, business leaders, and bankers, all have had a try at foretelling the future of prices over the New York Stock Exchange. Indeed, there has developed a definite profession with market forecasting as its objective. Yet 1929 came and went, and the turn from the greatest bull market on record to the greatest bear market on record caught almost every investor off guard. Leading investment institutions, spending hundreds of thousands of dollars yearly on market research, were caught by surprise and suffered millions of dollars loss because of price shrinkage in stock holdings that were carried too long.

A second reason for choosing the stock market as an illustration of the wave impulse common to social-economic activity is the great reward attendant on successful stock market prediction. Even accidental success in some single market forecast has yielded riches little short of the fabulous. In the market advance from July 1932 to March 1937, for illustration, an average of thirty leading and representative stocks advanced by 373%. During the course of this five-year movement, however, there were individual stocks whose per cent advance was much

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larger. Lastly, the broad advance cited above was not in a straight upward line, but rather by a series of upward and downward steps, or zig-zag movements of a number of months' duration. These lesser swings afforded even greater opportunity for profit.

Despite the attention given the stock market, success, both in the accuracy of prediction and the bounties attendant thereto, has necessarily been haphazard because those who have attempted to deal with the market's movements have failed to recognize the extent to which the market is a psychological phenomenon. They have not grasped the fact that there is regularity underlying the fluctuations of the market, or, stated otherwise, that price movements in stocks are subject to rhythms, or an ordered sequence. Thus market predictions, as those who have had any experience in the subject well know, have lacked certainty or value of any but an accidental kind.

But the market has its law, just as is true of other things throughout the universe. Were there no law, there could be no center about which prices could revolve and, therefore, no market. Instead, there would be a daily series of disorganized, confused price fluctuations without reason or order anywhere apparent. A close study of the market, however, as will be subsequently disclosed, proves that this is not the case. Rhythm, or regular, measured, and harmonious movement, is to be discerned. This law behind the market can be discovered only when the market is viewed in its proper light, and then is analyzed from this approach. Simply put, the stock market is a creation of man and therefore reflects human idiosyncrasy. In the pages which follow, the law, or rhythm, to which man responds will be disclosed as registered by market movements that fluctuate in accordance with a definite wave principle.

Nature's Law has always functioned in every human activity. Waves of different degrees occur whether or not recording machinery is present. When the machinery described below is present, the patterns of waves are perfected and become visible to the experienced eye. This machinery is:

A. Extensive commercial activity represented by corporations whose ownership is widely distributed.

B. A general market-place where buyer and seller may contact quickly through representatives.

C. Reliable record and publications of transactions.

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D. Adequate statistics available on all matters relating to corporations.
E. Daily high and low range charted in such a manner as will disclose the waves of all degrees as they occur.

The daily range of stock transactions was inaugurated in 1928 and the hourly record in 1932. These are necessary in order to observe the Minor and Minute waves, especially in fast markets.

Contrary to teachings of the Dow Theory, a popular device for gauging stock market movements, "Nature's Law" does not require confirmation by two averages. Each average, group, stock or any human activity is interpreted by its own waves.

FOOTNOTES

[1] Except for minor revisions, this Introduction is the same as chapter I of *The Wave Principle*.

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CHAPTER I

THE GREAT PYRAMID GIZEH

Many years ago I endeavored to ascertain the meaning of the word "cycle," but no one could define it. Curiosity led to a study of graphs, and I discovered rhythm in fluctuations (as disclosed in my Treatise published in 1938). Later I found that the basis of my discoveries was a law of Nature known to the designers of the Great Pyramid Gizeh, which may have been constructed five thousand years ago.

There are several pyramids in Egypt and elsewhere, but Gizeh is the original, and the only one that discloses symbols. Other pyramids were subsequently built to serve as crypts for the bodies of kings and their families. As early as 820 B.C., Al Mamoun, a Turkish Caliph, erroneously supposed that Gizeh housed the bodies of former pharaohs and that hoards of gold might be found. This proves that even at that early date the symbols of Gizeh were unknown. The period of Gizeh's construction was not only pre-literary but pre-hieroglyphic. Hieroglyphics are present in other pyramids but not in Gizeh.

Immense sums of money have been expended to learn the symbols of Gizeh, especially during the past fifty years. Their definitions are remarkably correct insofar as today's knowledge permits an understanding. Much of this knowledge is comparatively recent and indicates that the scientific symbols embodied in Gizeh must have been supernatural or that previous civilizations existed which equalled or exceeded today's development. It is possible that a high degree of civilization previously existed on the Western Hemisphere, especially from Mexico to Argentina. The Bible mentions giants and quite recently jaws of giants have been found that may have weighed four or five hundred pounds.[1]

Insofar as I have been able to learn, Egyptologists overlooked certain important symbols contained in the Great Pyramid, such as the ratio of the elevation to the base of the pyramid which is 61.8% and the number of inches of the elevation which is 5,813. (Note the numbers 5, 8, and 13, mentioned below in the Summation Series.) The unit of measurement in Egypt was, and is, the "inch" as we know it today.

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The outlines of a side view is that of a cycle, that is, **3** lines; in a pyramid there are **5** surfaces, four above ground and one at the bottom; from the apex **8** lines are visible; total surfaces and lines: **13**.

Fibonacci, an Italian mathematician of the thirteenth century, visited Egypt and on his return disclosed a summation series as follows: 1 2 3 5 8 13 21 34 55 89 144.... Any two adjoining numbers equal the next higher — for example, 5 + 8 = 13. The ratio of any number to the next higher is 61.8%. (The lower numbers produce a ratio slightly at variance). Therefore *the elevation to the base of the pyramid provides a ratio that rules the entire series.*

The seeds of a sun flower are located in curved rows that intersect each other. The highest number of intersections is 144. This is also the number of Minor waves in a complete cycle of the stock market (bull and bear markets). Numbers of the series are present in the human body, botany, production, animals, music and waves of human activities including the stock market.

Pythagoras, a Greek philosopher of the fifth century, B.C., visited Egypt and on his return disclosed the diagram and title shown in Chapter 2.

FOOTNOTES

[1] Since proved to be otherwise, of course!

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CHAPTER II

NATURE'S LAW

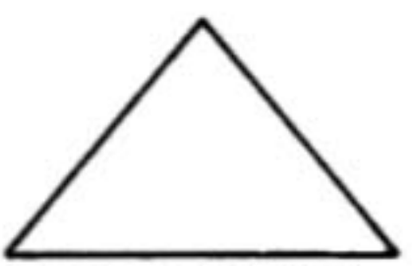
Nature's Law was known at least five thousand years ago. Egypt was "in flower" by at least 1,500 B. C. and is the oldest of today's list of nations. It is not known when the Egyptian pyramids were built. The Great Pyramid Gizeh was constructed at least five thousand years ago. Some students advance evidence that it existed before the threat of floods that prompted Noah to build the ark. Other students believe that it may be thirty thousand years old.

In *Life* magazine (December 3, 1945) there appears a very interesting article entitled "The Building of the Great Pyramid." Mr. Bel Geddes prepared models of different stages of construction and pictures of them are shown. The report was prepared for the *Encyclopedia Britannica*. It says that the total weight of material used was 3,277,000 tons, whereas the material used in the Empire State Building, the tallest building in the world, weighs only 305,000 tons.

The marvelous ingenuity, skill, time and labor expended by the designers and builders of the pyramids to erect a perpetual symbol demonstrates the supreme importance of the messages they desired to convey to posterity. That era was pre-literary and pre-hieroglyphic, therefore symbols were the only means of recording.

For centuries the pyramids have been exhaustively investigated, especially during recent years. Insofar as I have observed, Egyptologists overlooked an important, perhaps the most important symbol. I refer to the outer lines of the pyramid Gizeh.

Pythagoras was a renowned Greek philosopher of the fifth century, B. C. The older cyclopedias give a very detailed description of his activities. The *Encyclopedia Britannica* shows a diagram and cryptic title which may be the only record he left. It was made after he returned to Greece following a prolonged visit to Egypt. The diagram and title appear in Figure 1. It is fair to assume that the Pythagoras diagram refers to a pyramid.



The Secret of the Universe

Figure 1

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The original measurements of the Great pyramid of Gizeh are estimated to have been: base 783.3 feet, elevation 484.4 feet, ratio 61.8%. The elevation, 484.4 feet, equals 5,813 inches (5-8-13 FSS).

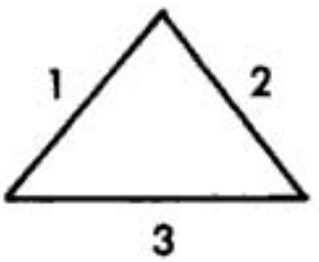

Figure 2

Looking at a pyramid from any one of the four sides, **3** lines are visible. The diagram in Figure 2 is a complete cycle. Viewing the pyramid from any one of the four corners as in Figure 3, **5** lines are visible. A pyramid has **5** surfaces — four above ground and the bottom. From the apex, a pyramid shows **8** lines, as shown in Figure 4.

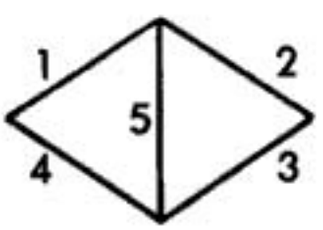

Figure 3

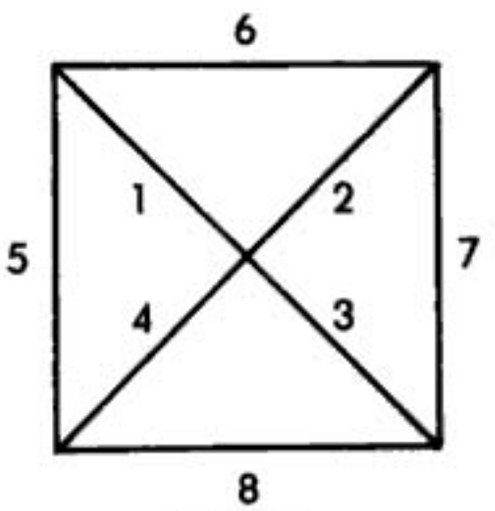

Figure 4

Fibonacci was an Italian mathematician of the thirteenth century, A. D. He was better known in his day as Leonardo de Pisa. He visited Egypt and Greece, and on his return to Italy disclosed what is known as a summation series. This series of numbers follows: 1 2 3 5 8 13 21 34 55 89 144....

Any two adjoining numbers equal the next higher number, for example, 5 + 8 = 13. Any number divided by the next higher number gives a ratio of .618, for example, 8/13 = .618. Any number divided by the next lower number gives a reciprocal of 1.618. In the lower numbers the ratios are not exact, but close enough for practical purposes. To simplify reading, I will hereafter refer to the former as .62 and the latter as 1.62.

Note that the first five numbers of the Summation Series, 1, 2, 3, 5, and 8, are shown in the complete diagram of a pyramid.

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The late Jay Hambidge, an American artist, visited Egypt, Greece and Italy and wrote several very important and interesting books. By permission of Yale University Press, I quote pages 27 and 28 of his book entitled *Practical Applications of Dynamic Symmetry*:

> Botanists use the disk of the sunflower as a sort of general illustration of the law of leaf arrangement. It exhibits the phenomenon in nearly two-dimensional form. The seeds are distributed over the sunflower disk in rhomboidal shaped sockets and the complex of these sockets forms a design of intersecting curves, the pattern being something like the old-fashioned chasing on watchcases. This pattern of curves is the interesting feature of the sunflower seed arrangement.
>
> First. The curve itself is a definite kind of curve. As a matter of fact it is quite like the curve of shell growth. It is regular and possesses certain mathematical properties. These properties are a necessary consequence of uniform growth as will be explained presently.
>
> Second. When these curves are counted it will be found that a normal sunflower disk of five or six inches in diameter has 89. Winding in one direction there are 55 and in the other direction there are 34. That is to say, the normal head exhibits 55 curves crossing 34. The two numbers are written 34 + 55. Below the apex flower of the stalk there are usually secondary flowers, smaller in size. The curve-crossing numbers for these are generally 21 + 34. Lower of the stalk may be tertiary flowers of late development. The curve-crossing numbers of these are 13 + 21.
>
> At Oxford, in England, sunflowers have been nourished to produce abnormal disks and the curve-crossing numbers have increased from 34 + 55 to 55 + 89. Professor Arthur H. Church, a leading modern authority on this fascinating subject, tells us of a gigantic disk raised at Oxford whereon the curve-crossing numbers were 89 + 144.
>
> Around the seed complex of the flower disk there is an arrangement of florets. Like the seeds, these exhibit curve-crossing numbers. They are usually 5 + 8.
>
> If we begin at the bottom of the plant stalk and count the actual number of leaves up to the flower disk, we are likely to find, as we wind our progress around the stalk, that we pass a certain number of leaves before we find one imposed directly over the one first counted, and that this number and the num-

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ber of revolutions about the stalk, are constant between each leaf imposition. These will represent curve-crossing numbers belonging to the same series of numbers exhibited by the seeds and florets.

The numbers we have mentioned belong to what is called a summation series, so called because each number represents a sum of preceding numbers of the series, in this case 2. This series of numbers is: 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, etc. Each member of this series is obtained by adding together the two preceding numbers.

If we take any two members of this series and divide one into the other as, say 34 into 55, we obtain a ratio, and this ratio is constant throughout the series; that is to say, any lesser number divided into any greater number which immediately succeeds it produces the same ratio. This ratio is 1.618 plus, a number with a never ending fraction. If we reverse the operation and divide 55 into 34, we obtain the number .618 plus. It will be noticed that the difference between these two results is 1 or unity.

It will also be noticed that when we make these two divisional operations that there is a slight error. This is due to the fact that the series is not quite accurate when expressed in whole numbers. There should be a very small fraction. But as the error is within that of observation in the growing plant, the whole number is retained to facilitate checking.

It is an extraordinary coincidence that this ratio of 1.618 or .618 is a ratio which fascinated the ancient Greeks exceedingly. Extraordinary, because they could have had no suspicion that it was connected with the architecture of plants. It was called by them extreme and mean ratio.

During the middle ages it was given the name Divine Section and in fairly recent time, Golden Section.

From experience I have learned that 144 is the highest number of practical value. In a complete cycle of the stock market, the number of Minor waves is 144, as shown in the following table and in Figure 7, Chapter 4:

Number of Waves	***Bull Market***	***Bear Market***	***Total (complete cycle)***
Major	5	3	8
Intermediate	21	13	34
Minor	89	55	144

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All are Fibonacci numbers and the entire series is employed. The length of waves may vary, but not the number. Note the FSS numbers in the following:

— The bodies of humans follow the numbers 3 and 5. From the torso there are 5 projections — head, two arms and two legs. Each leg and arm is subdivided into 3 sections. Legs and arms terminate in 5 toes and fingers. The toes and fingers (except the big toe) are subdivided into 3 sections. We have 5 senses.

— The monkey is the same as a human except that his feet are the same as his hands, that is, his big toe is the same as his thumb. Most animals have 5 projections from the torso — head and four legs, total 5. Birds have 5 projections from the torso — head, two feet and two wings.

— Music: The best example is the piano keyboard. "Octave" means eight. Each octave is composed of 8 white keys and 5 black keys, total 13.

— Chemical elements: There are approximately 89 primary elements.

— Colors: There are 3 primary colors. Blending produces all other colors.

Miscellaneous Observations:

— The Western Hemisphere is composed of 3 subdivisions, North, Central and South America.

— In the Western Hemisphere there are 21 Republics, all of which are members of the Pan-American Union. North America is composed of 3 countries, Canada, Mexico and the United States. South America is composed of ten Republics and three European colonies, total 13. Central America was, previous to the Panama Canal, composed of 5 Republics.

— The United States was originally composed of 13 states. Today there are 55 subdivisions as follows: 48 states, District of Columbia, Philippines, Panama Canal Zone, Puerto Rico, Alaska, Hawaiian Islands and the Virgin Islands.

— On the Declaration of Independence there are 56 signatures. The original number was 55. The last was added later.

— Main branches of the Federal Government: 3.

— Highest salute of the Army: 21 guns.

— Voting age: 21 years.

— The Bill of Rights contains: 13 points.

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— The colors of the national flag are: 3.

— The Washington Monument in Washington, D. C. (The cornerstone was laid July 4, 1848.):

Total cost, $1,300,000.	13
Height of shaft, 500 feet.	5
Height of capstone, 55 feet.	55
Base of shaft, 55 feet square.	55
Top rim of shaft, 34 feet.	34
Steps of foundation (number):	8
Windows (two on each side):	8

The capstone is in the form of a pyramid with a base 34 feet square and a height 55 feet (ratio .618).

— The Axis was composed of 3 partners. Germany dominated 13 countries in rapid succession but stalled on the fourteenth, Russia. Mussolini served as dictator for 21 years.

— In 1852 Commodore Perry paid a courtesy visit to Japan and invited the "Son of Heaven" to abandon absolute isolationism. In 1907, 55 years later, Japan seriously threatened the United States. In 1941, 34 years later, and 89 years from 1852, Japan attacked Pearl Harbor.

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CHAPTER III

HUMAN ACTIVITIES

The expression "human activities"[1] includes such items as stock prices, bond prices, patents, price of gold, population, movements of citizens from cities to farms and vice versa, commodities prices, government expenditures, production, life insurance, electric power produced, gasoline consumption, fire losses, price of seats on the stock exchange, epidemics, and real estate. The main item of interest is the price of securities, which everyone should understand, at least to some degree.

It behooves us to prepare for the "rainy day." Permanent improvements, such as for example, the construction of buildings, conservation projects, roads, bridges, factories, homes, etc. should await cyclical lows for the double purpose of low cost to the owner and employment of labor. Fluctuations in economic welfare are as unfailing as the earth's revolution.

FOOTNOTES

[1] See the charts in the final pages of *The Wave Principle*.

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CHAPTER IV

DISTINCTIVE FEATURES OF HUMAN ACTIVITIES

All human activities have three distinctive features — pattern, time and ratio — all of which observe the Fibonacci Summation Series. Once the waves can be interpreted, the knowledge may be applied to any movement, as the same rules apply to the price of stocks, bonds, grains, cotton, coffee and all the other activities previously mentioned.

The most important of the three factors is pattern. A pattern is always in process of formation. Usually, but not invariably, the student is able to visualize in advance the type of pattern. This facility is furnished by the type of pattern that preceded. See Chapter 8, "Alternation."

A perfect diagram of a stock market cycle is shown in Figures 5, 6 and 7. It is divided primarily into "bull market" and "bear market." Figure 5 subdivides the bull market into five Major[1] waves and the bear market into three Major waves. The diagram of the bull market in Figure 6 subdivides Major waves ①, ③ and ⑤[2] into five Intermediate waves each. Figure 7 subdivides Intermediate waves 1, 3 and 5 into five Minor waves each.

In Figure 5, the bear market is subdivided into three Major waves indicated by the letters Ⓐ, Ⓑ and Ⓒ. In Figure 6, downward waves Ⓐ and Ⓒ are subdivided into five Intermediate waves. Wave Ⓑ upward is divided into three Intermediate waves. In Figure 7, the Intermediate waves are subdivided into five Minor waves.

In other words, a bear market is the reverse of a bull market, except that a bear market has three Major waves down, whereas in a bull market there are five Major waves upward. Corrections in both bull and bear swings are more difficult to learn.

As the discoveries disclosed herein are original, new expressions had to be coined. In order to explain the patterns and their corresponding expressions, perfect diagrams are shown in various degrees. The word "degree" means relative importance, so to

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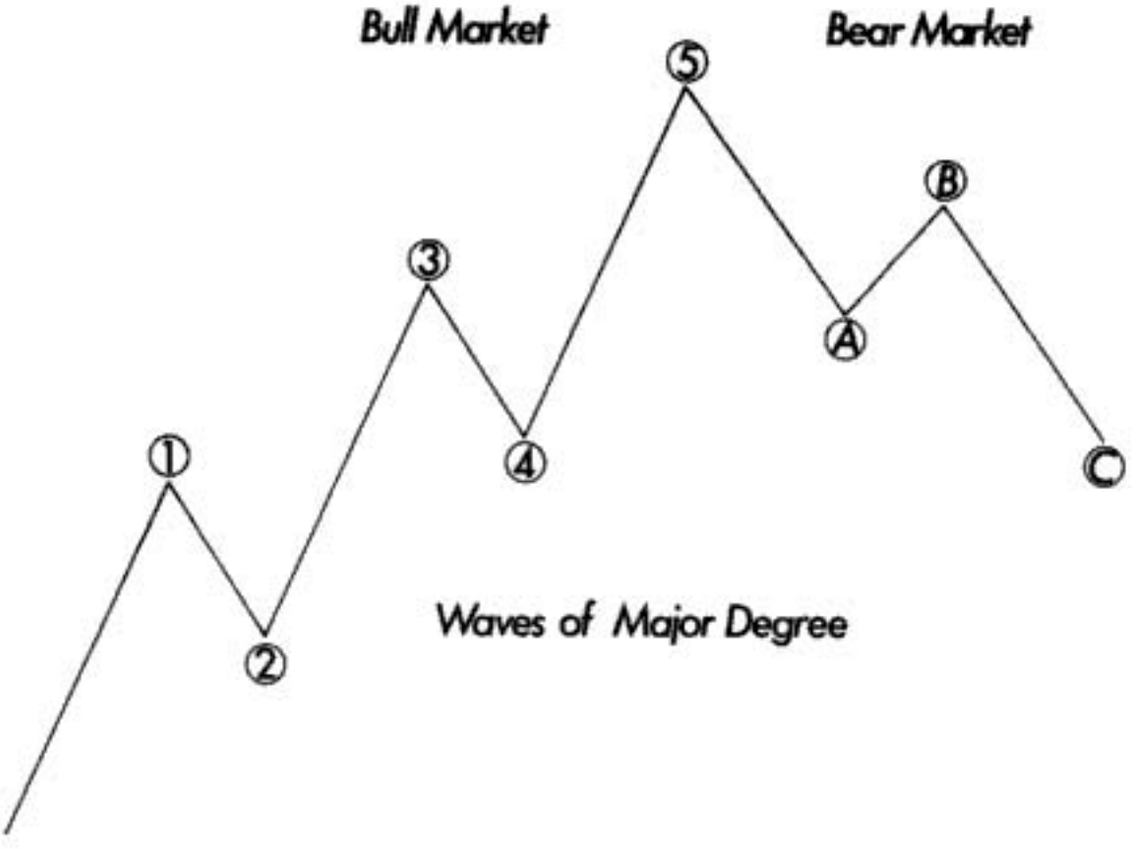

Figure 5

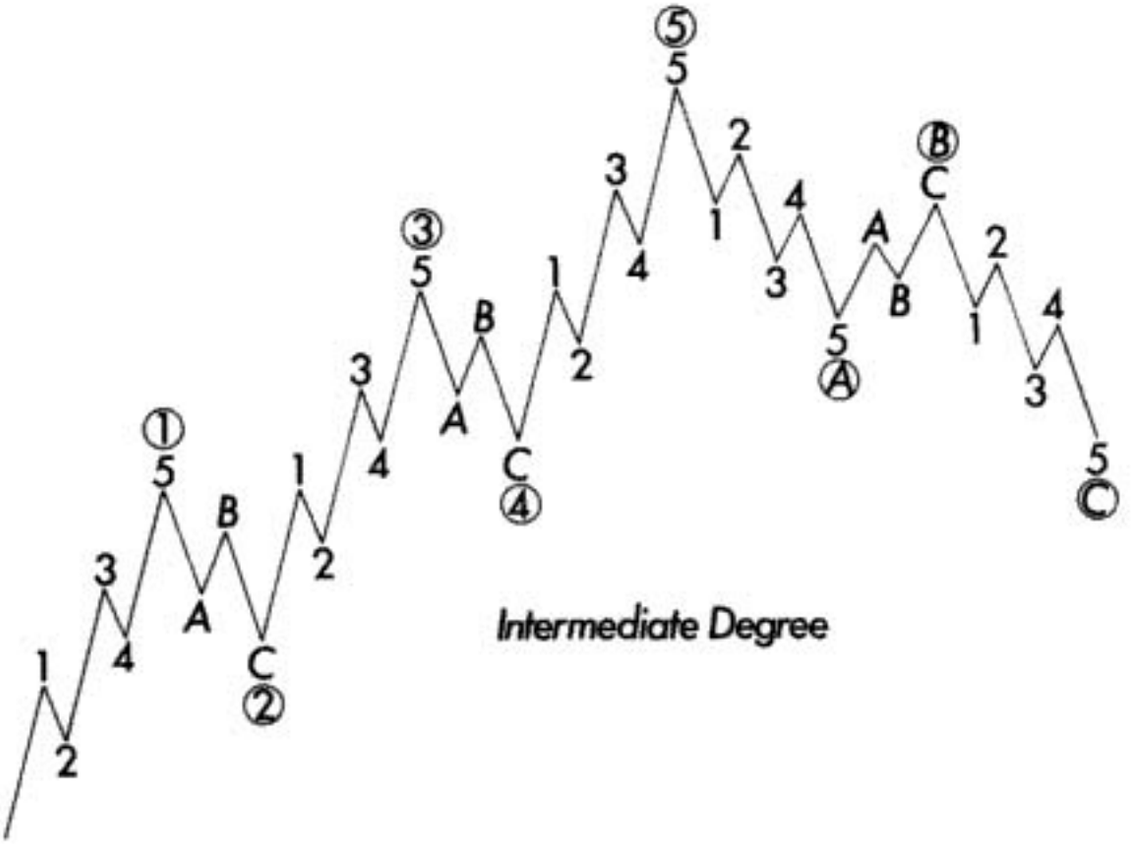

Figure 6

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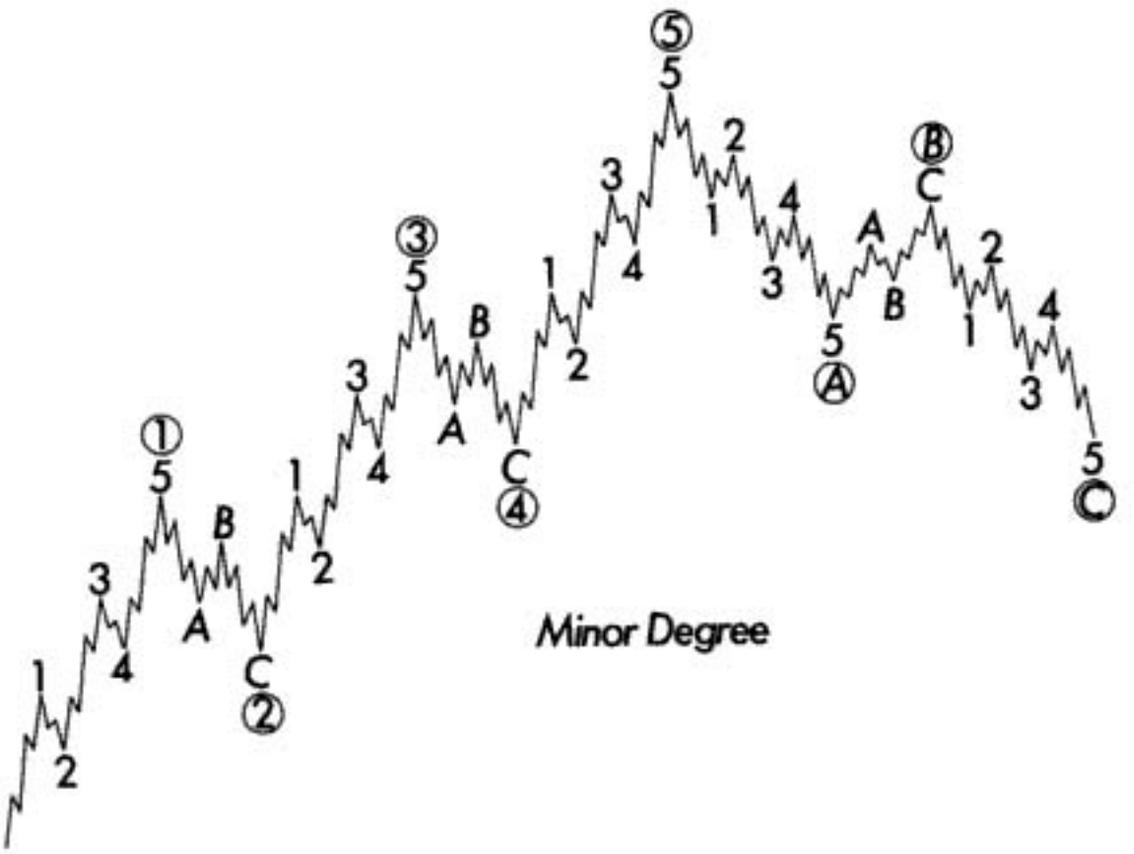

Figure 7

speak. For example, "Major" degree refers to those waves in Figure 5. "Intermediate" degree refers to waves in Figure 6. "Minor" degree refers to waves shown in Figure 7. See Chapter 2 for numbers of waves.

FOOTNOTES

[1] The term "Major" is used throughout the next several chapters as a substitute for the term "Primary," which was introduced in the first monograph.

[2] Elliott has improved the wave labeling system used in the first monograph.

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CHAPTER V

CORRECTIONS

Patterns of corrections are the same, regardless of their direction or size. In a bull swing, corrections are downward or sidewise. In a bear swing, corrections are upward or sidewise. Therefore, corrections will be diagramed for both bull and bear swings. The diagrams first shown apply to upward swings. Diagrams underneath apply to downswings and will be "inverted." Therefore, whenever the expression "inverted" appears, it applies to the downward main trend.

In Figures 5, 6 and 7 it will be noted that there are three degrees of waves: Major, Intermediate and Minor. Likewise there are three degrees of corrections, as is natural.

There are three types of corrections: Zig-zag,[1] Flat and Triangle.

Zigzags

Figures 8, 9 and 10 are corrections of an uptrend.

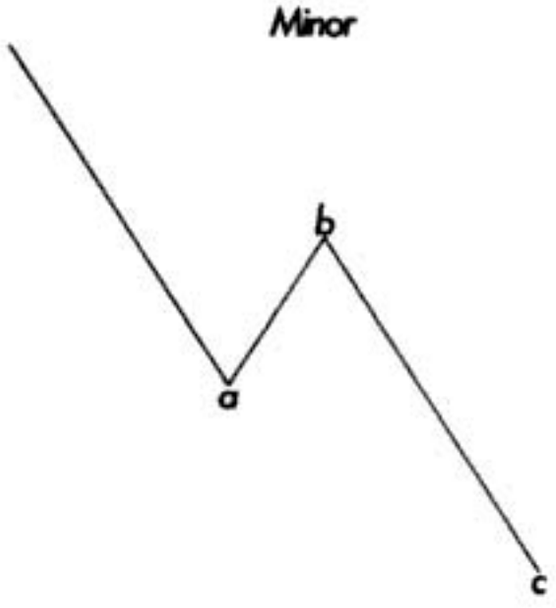

Figure 8

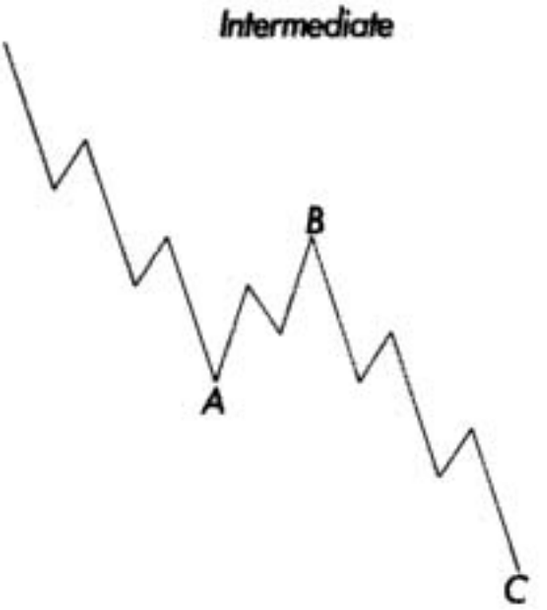

Figure 9

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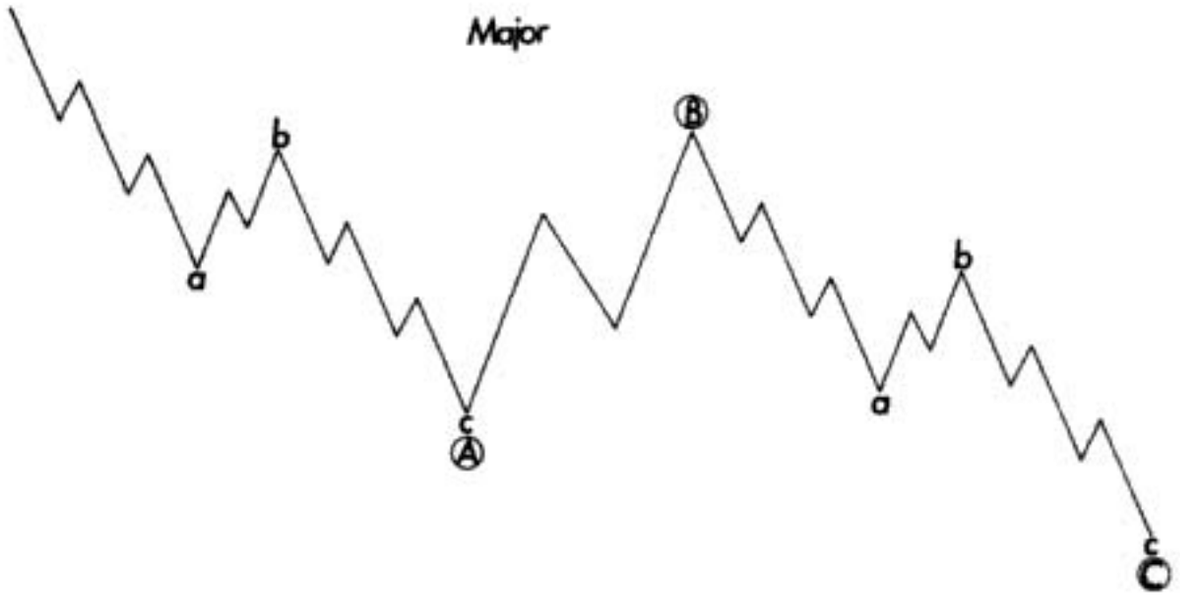

Figure 10

Figures 11, 12, and 13 are inverted (corrections of a downtrend).

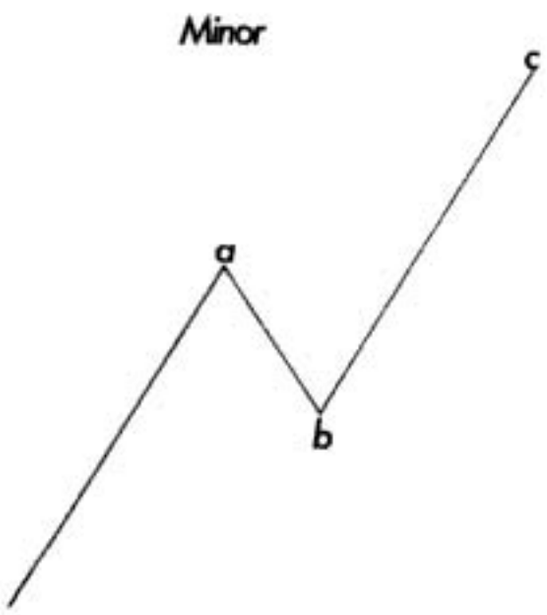

Figure 11

Figure 12

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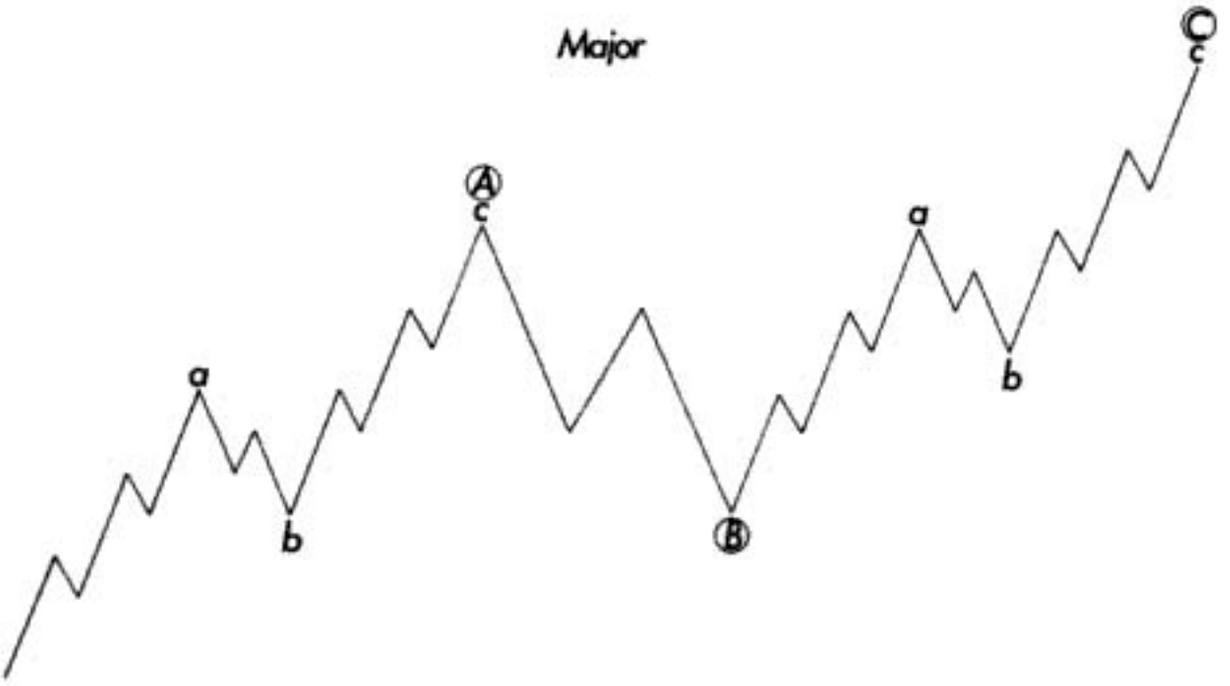

Figure 13

Flats

The next illustrations are flats of Minor, Intermediate and Major degree, both ordinary (Figures 14, 15 and 16) and inverted (Figures 17, 18 and 19). These diagrams are given the name "flat" for the reason that their usual appearance is flat. At times, they slant downward or upward.

As a matter of fact, these patterns might be called "3-3-5." In the last analysis, they are three wave patterns, i.e., A, B and C, whereas a bull pattern is a "5-3-5-3-5" for waves 1, 2, 3, 4 and 5.

The pattern of a human being is "5-3-5-3." There are 5 projections from the torso (head, two arms and two legs); the arms and legs are subdivided into 3 sections; the ends of arms and legs are subdivided into 5 fingers or 5 toes; each finger and toe is again subdivided into 3 sections.

Whether or not wave C of an inverted flat is elongated or not it still remains corrective. It is possible, however, to know when an elongated wave C will occur by reading carefully Chapter 8, "Alternation."

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Minor

Figure 14

Intermediate

Figure 15

Major

Figure 16

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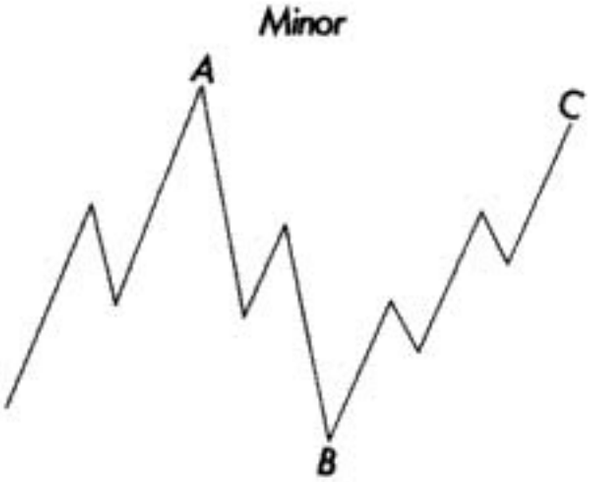

Figure 17

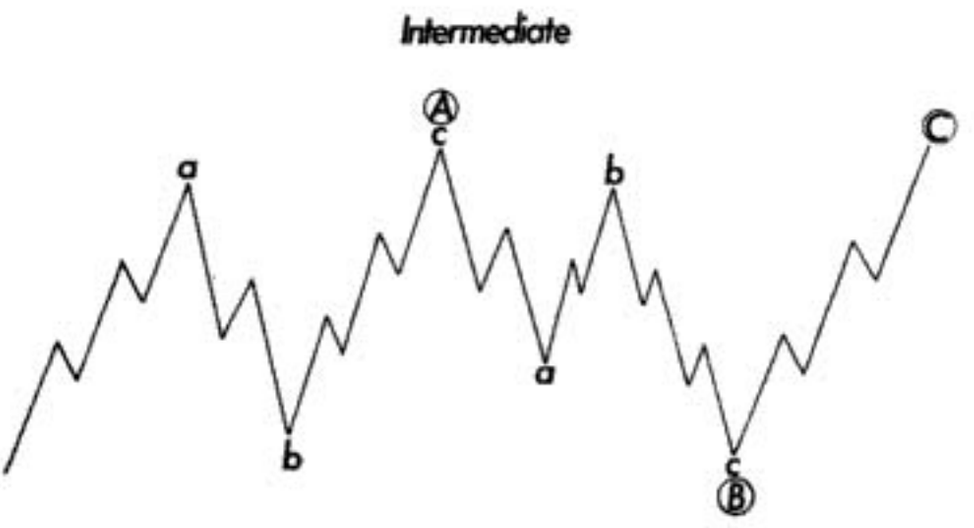

Figure 18

Figure 19

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Complex Corrections

A Minor correction would be composed of three waves down, as in Figures 20 and 21.

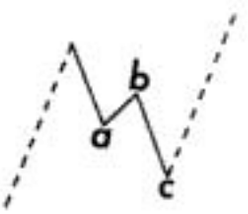

Figure 20

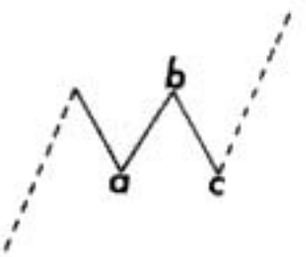

Figure 21

A double sidewise correction would be composed of seven waves as in Figure 22. A triple sidewise movement would have eleven waves sidewise as in Figure 23.

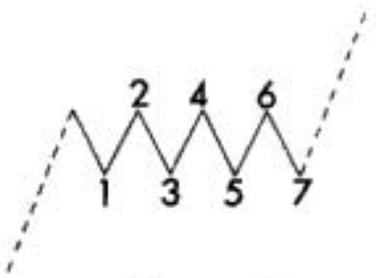

Figure 22

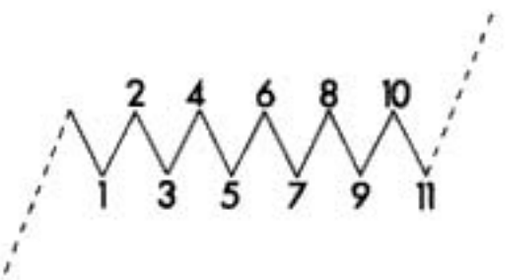

Figure 23

In other words, a sidewise correction to an up trend always ends in a down wave[2], whether it is composed of one, three, seven or eleven waves. They are named as follows: three waves is a "single three," seven waves is a "double three" and eleven waves is a "triple three."

The same number of waves upward are corrective, as in Figures 24, 25 and 26.

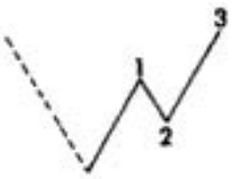

Figure 24

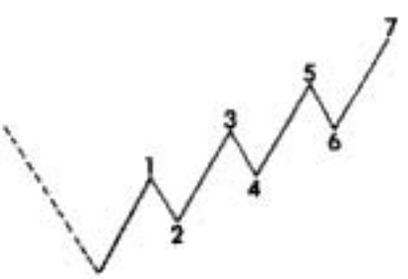

Figure 25

Figure 26

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Occasionally these threes are mixed in upward and sidewise, or downward and sidewise, as in Figures 27 and 28 (double threes mixed),[3] and 29 and 30 (double threes upward).

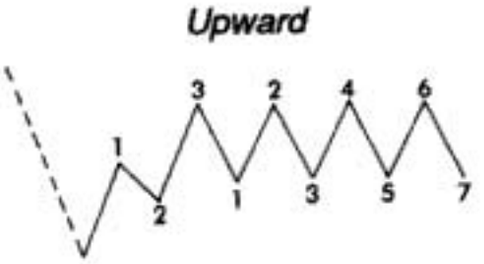

Figure 27

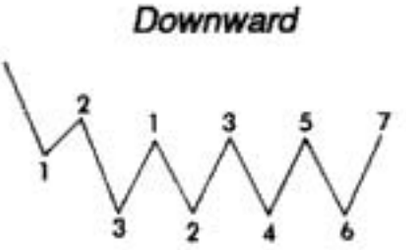

Figure 28

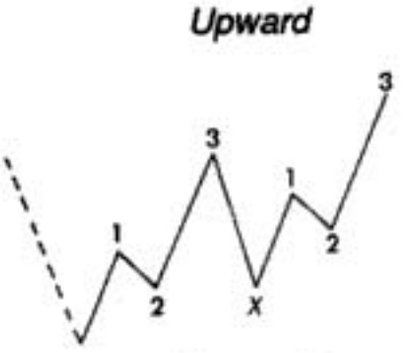

Figure 29

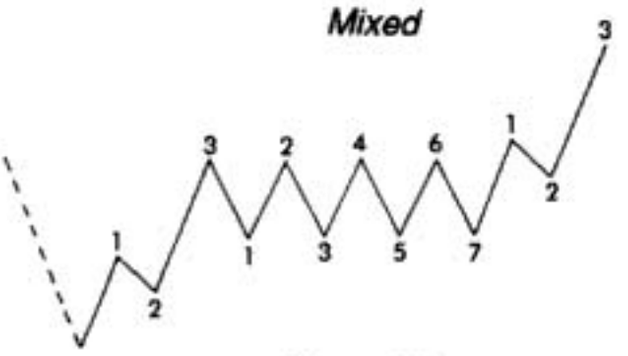

Figure 30

Triangles

Triangles are composed of five waves, or better said, five legs. In the larger types, each leg will be composed of three waves each as shown in Figures 31 and 32.

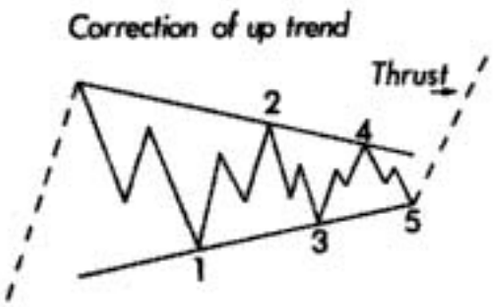

Figure 31

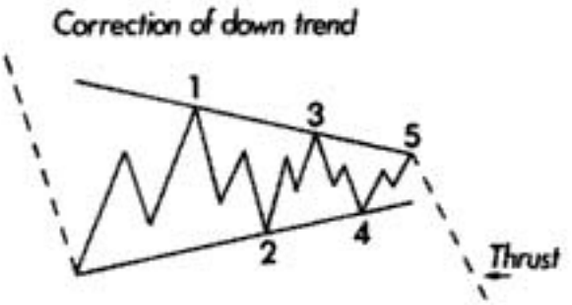

Figure 32

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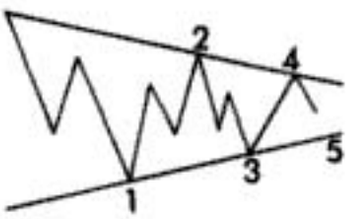

Figure 33

In medium sized types, the fourth and fifth legs may be composed of one wave each, as in Figure 33. In the very small types, the legs are often composed of just one wave. The main guide to the formation of a triangle is the outline, that is, the straight lines drawn across the tops and bottoms. The student cannot be certain that a triangle is forming until the fifth wave has started.

There are three types of triangles,[4] shown in Figure 34.

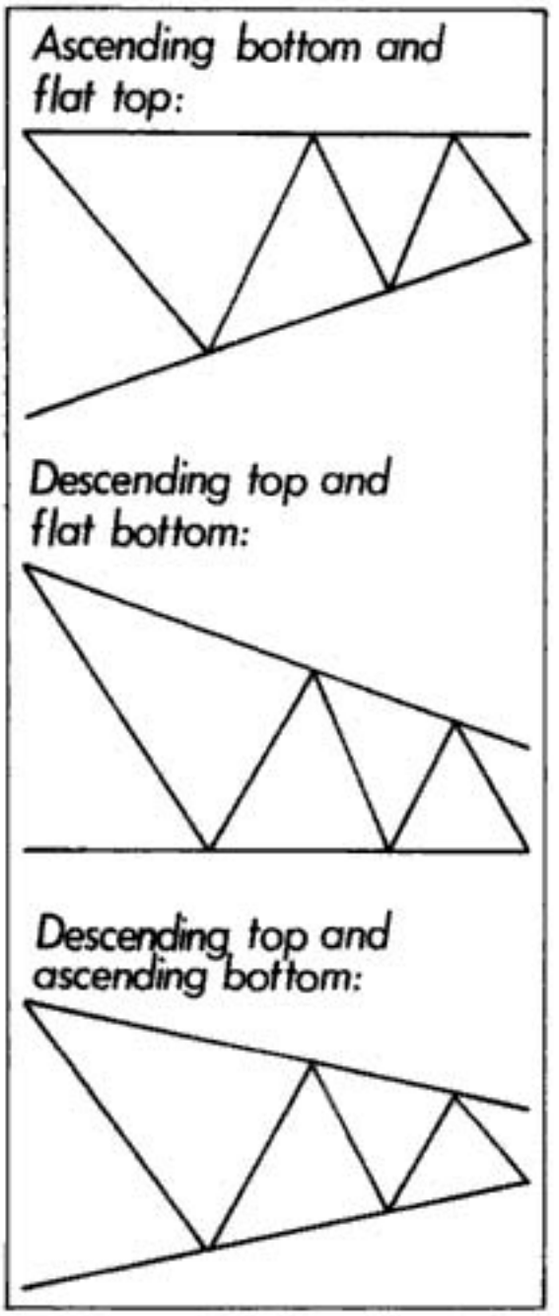

Figure 34

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The fifth leg may terminate within or without the outline of the triangle,[5] as in Figures 35 and 36.

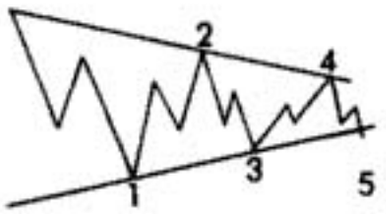

Figure 35

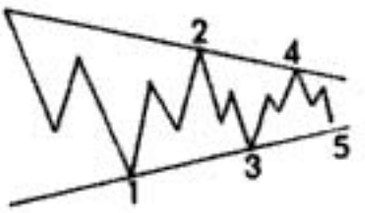

Figure 36

The fifth wave should be composed of three waves unless the triangle is very small. On one occasion a triangle consumed only seven hours. The largest triangle occurred between November 1928 and April 1942, thirteen years.[6] This latter movement will be discussed in other chapters.

The movement subsequent to the fifth leg of a triangle is called a "thrust." It will be composed of five waves and in the direction of legs 2 and 4 of the triangle.

Triangles are infrequent. When they appear, their position has always been wave 4 of a movement of any degree, up or down, as shown in Figures 37 and 38.[7]

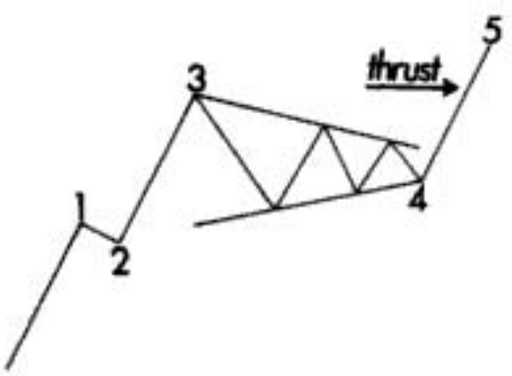

Figure 37

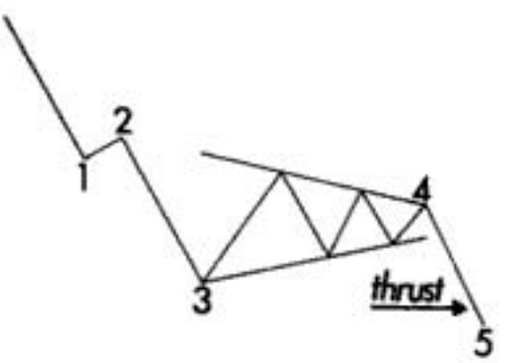

Figure 38

The fifth wave, which follows a triangle, is called a "thrust" and is composed of five waves similar to those of waves 1 and 3. As shown above, the fifth wave exceeds the top of wave 3, as in Figure 37, or the bottom of wave 3, as in Figure 38.

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FOOTNOTES

[1] Figures 10 and 13 are actually drawings of "double zigzags," which Elliott displays in chapter 6. Either Elliott mis-drew his illustrations here or he decided that double zigzags were more common in Major degree than regular zigzags. For an illustration of a true zigzag of Major degree, refer to the Ⓐ-Ⓑ-Ⓒ section of Figure 7, as well as Figure 15 in the *Financial World* articles and Figure 27 in *The Wave Principle*.

[2] Elliott overlooked this statement when drawing the illustrations in Figures 27 and 28. He inadvertently left out an additional "three" in each correction, which cannot therefore serve to reinstate the trends previously in motion.

[3] Id.

[4] The illustrations depict ascending, descending and symmetrical (contracting) triangles. For reasons not stated, Elliott omits discussion of the reverse symmetrical (expanding) type.

[5] The fifth triangle wave may terminate beyond the triangle boundary, but not beyond the level of termination of the third triangle wave.

[6] See footnotes 1-8 in chapter XI.

[7] They are also found in the B wave position.

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CHAPTER VI

EXTENSIONS

An extension may appear in any one of the three impulses, i.e., waves 1, 3 or 5, but never in *more* than one, as shown in Figures 39, 40 and 41 (upward) and Figures 42, 43 and 44 (inverted).

Figure 39

Figure 40

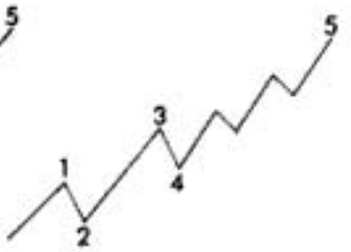

Figure 41

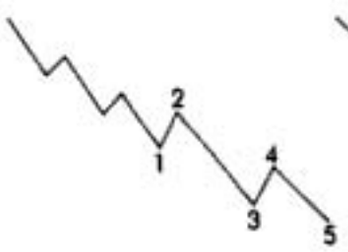

Figure 42

Figure 43

Figure 44

It will be noted that in each instance there are a total of nine waves, counting the extended wave as five instead of one. On rare occasions, an extended movement will be composed of nine waves, all of equal size, as illustrated in Figures 45 and 46.

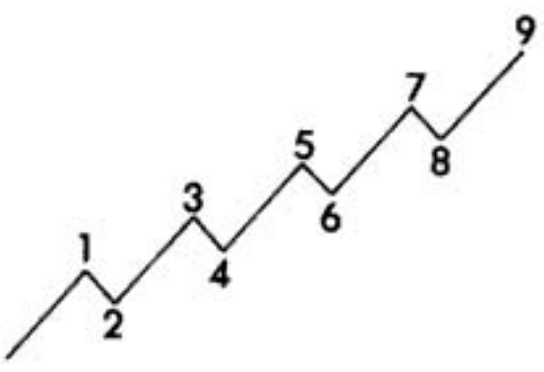

Figure 45

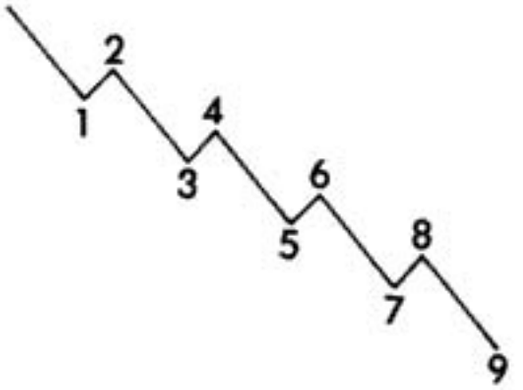

Figure 46

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Extensions occur only in new territory of the current cycle. That is, they do not occur as corrections.

Extensions of Extensions

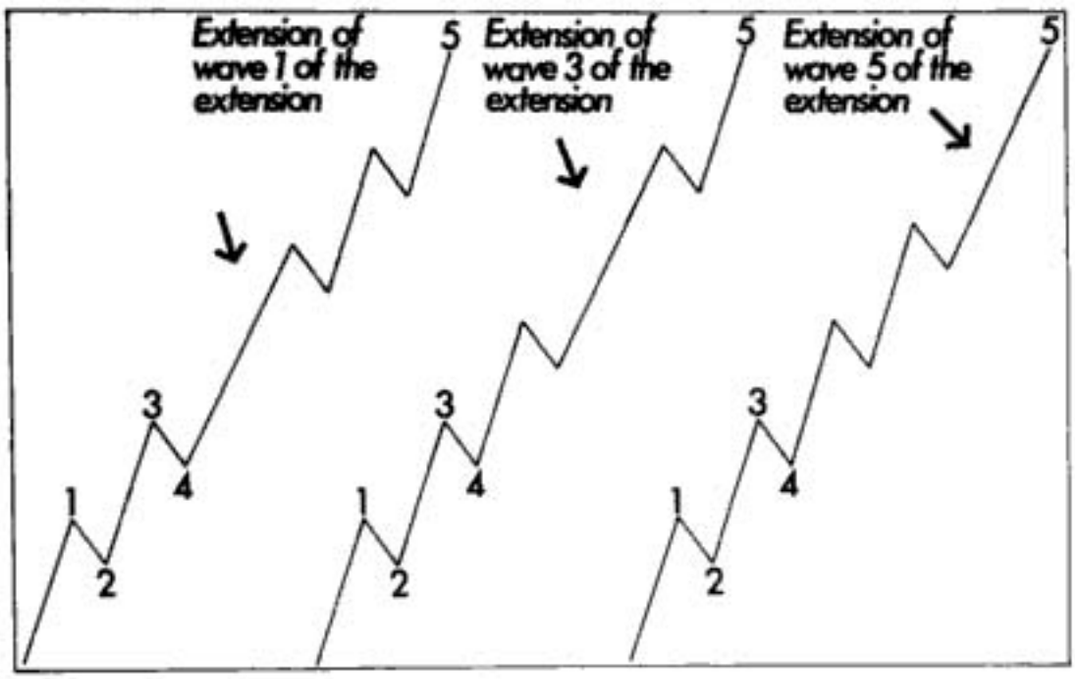

Figure 47

Extension in Wave 5 and Double Retracement

Extensions are "double retraced," that is, a correction will pass over the same ground twice, down and up. It is not necessary to give any consideration to this feature when the extension occurs in the first or third wave, *but only* when the extension occurs in the fifth wave. If the extension occurs in the first wave, the double retracement will be taken care of automatically[1] by waves 2 and 3. If the extension occurs in the third wave, double retracement will be taken care of by waves 4 and 5. See Figure 48 for illustration of an extension in wave 5 and subsequent double retracement.

If an extension is of small degree, retracement will occur immediately. But if it is of Intermediate or Major degree, double retracement may not occur until the entire advance has been completed.[2] When a movement occurs at high speed, the same territory is retraced at almost the same speed in reverse.

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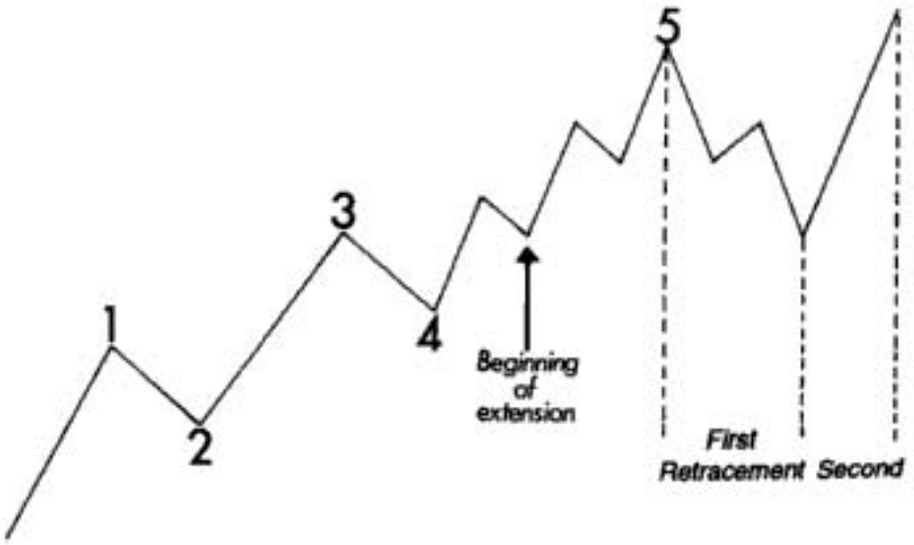

Figure 48

Erroneous Counting

The three impulse waves, 1, 3 and 5, are seldom of the same length. One of the three is usually considerably longer than either of the other two. It is important to note that wave 3 is never shorter than both[3] waves 1 and 5. For example, when wave 3 is shorter than either[4] wave 1 or 5, as in Figure 49, the correct method of counting is as in Figure 50.

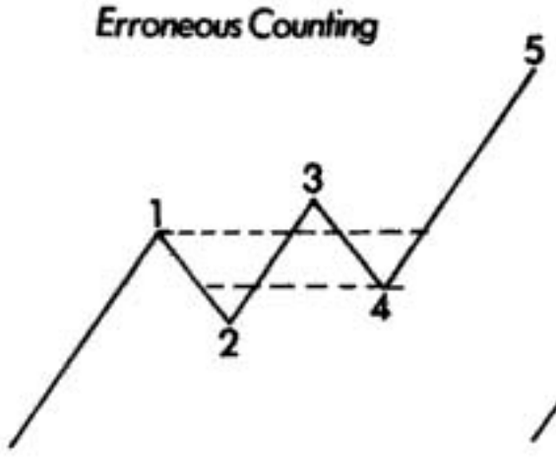

Figure 49

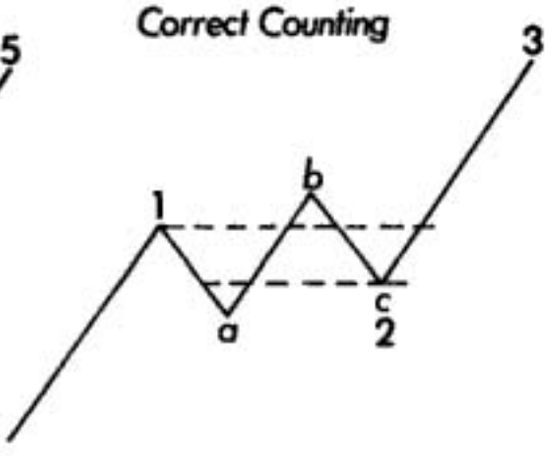

Figure 50

Note that wave 4 overlapped wave 1, which it should not do. Overlapping means that the end of wave 4 was lower than the top of wave 1. Inverted, the example would appear as in Figures 51 and 52.

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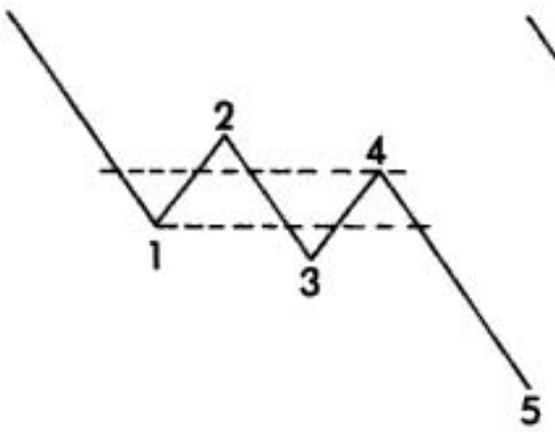

Figure 51

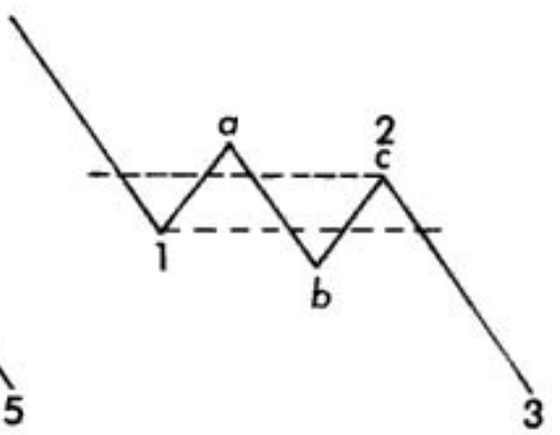

Figure 52

Overlapping within "complex" waves merits careful study. Occasionally complex waves develop into "double threes" or "triple threes," as diagrammed in Chapter 5.

Enlargement of Corrections

It is important to graph a movement in the daily range in order to know whether or not the first upward movement is composed of three or five waves. The weekly range might not disclose this fact. For example, in Figures 53 and 54, an inverted flat is shown in both daily and weekly range.[5] Note that in the weekly range, the precise composition of the first wave up is not disclosed, and the student might erroneously assume that it was composed of five waves in the daily. The weekly range of an inverted flat would appear as being composed of seven waves,

Figure 53

Figure 54

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whereas it would be an inverted flat, i.e., A, B, (1, 2, 3, 4, 5) C, as shown in Figure 53.

Similar behavior may occur in zig-zags. A zig-zag does not elongate, but it may enlarge or double, so to speak, as illustrated in Figures 56 and 57. Whether a zig-zag is single or double, its corrective character remains the same.

Figure 55

Figure 56

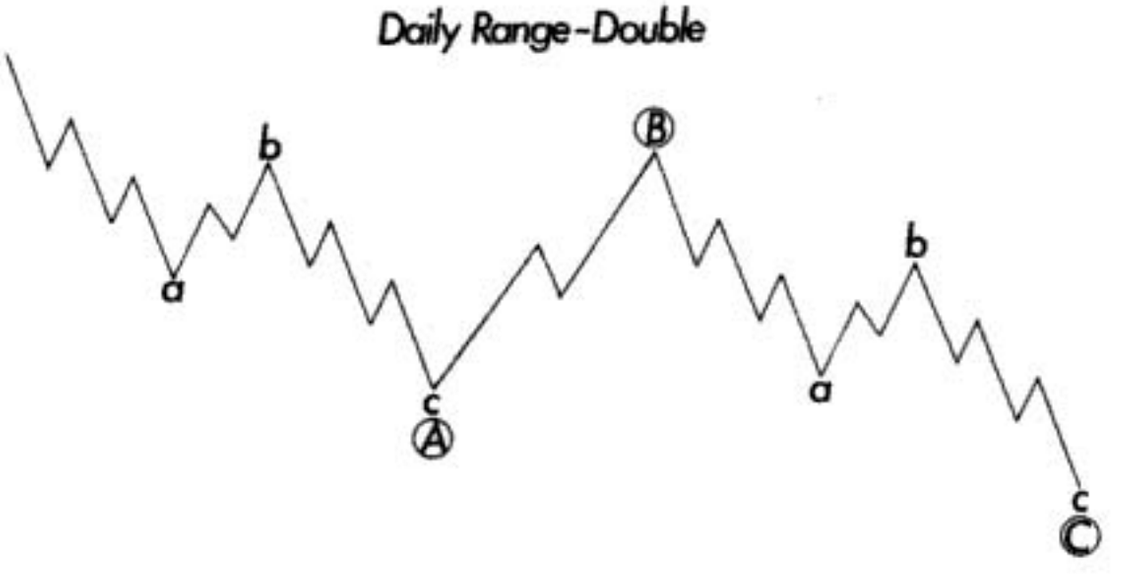

Figure 57

Sidewise Movements

As will have been noted, all corrective movements regardless of the degree are composed of three waves. Sidewise movements follow the same behavior, and are of the same character,

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corrective. Figure 58 shows two types of sidewise movements[6] following an advance. In Figure 59, the main trend is downward.

Figure 58

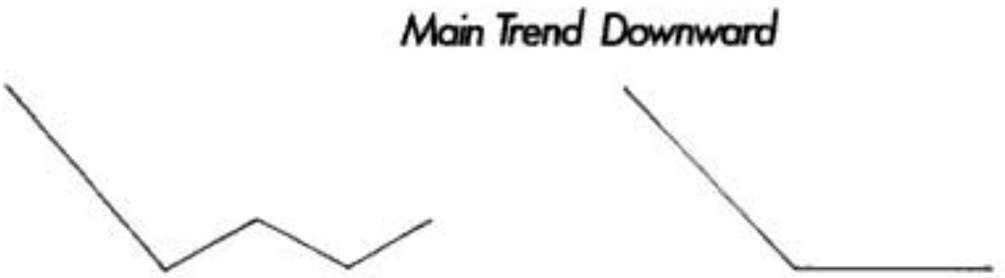

Figure 59

FOOTNOTES

[1] Certainly *part* of an extension in the first or third wave will be retraced, but it will not be retraced in the same manner as those within fifth waves. Only after fifth waves will the first retracement return as far back as the low of wave two of the extension.

[2] Degree does not affect patterns. This statement is a reference to an irregular top that is supposedly *followed* by double retracement, and results from Elliott's odd interpretation of the 1928-1930 period.

[3] He means, "shorter than wave 1 and shorter than wave 5."

[4] Id.

[5] These figures are hardly flat in appearance. The overall outline suggests a double zigzag. This discussion probably results from Elliott's tendency to count extended fifth waves when in fact the third is extended, thereby leaving a couple of "extra" waves at the end that he counted as A and B.

[6] The first illustration in each of Figures 58 and 59 is a flat. The second merely shows the look of any flat when the data filter is not small enough to show its subdivisions.

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CHAPTER VII

IRREGULAR TOPS

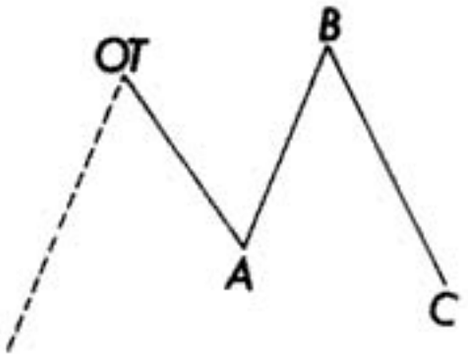

Figure 60

A movement that exceeds the top of a fifth wave (the orthodox top) is an "irregular" top (see Figure 60).[1] Suppose that the five waves up in Figure 61 are of Major degree. The top of the fifth wave would be the "orthodox" top (OT). The first movement from point "5" down would be composed of three waves and lettered "A." The second movement would be upward and exceed the top of 5. This movement would be lettered "B." Like wave A, it would be composed of three waves. The next movement would be composed of five waves down and lettered "C."

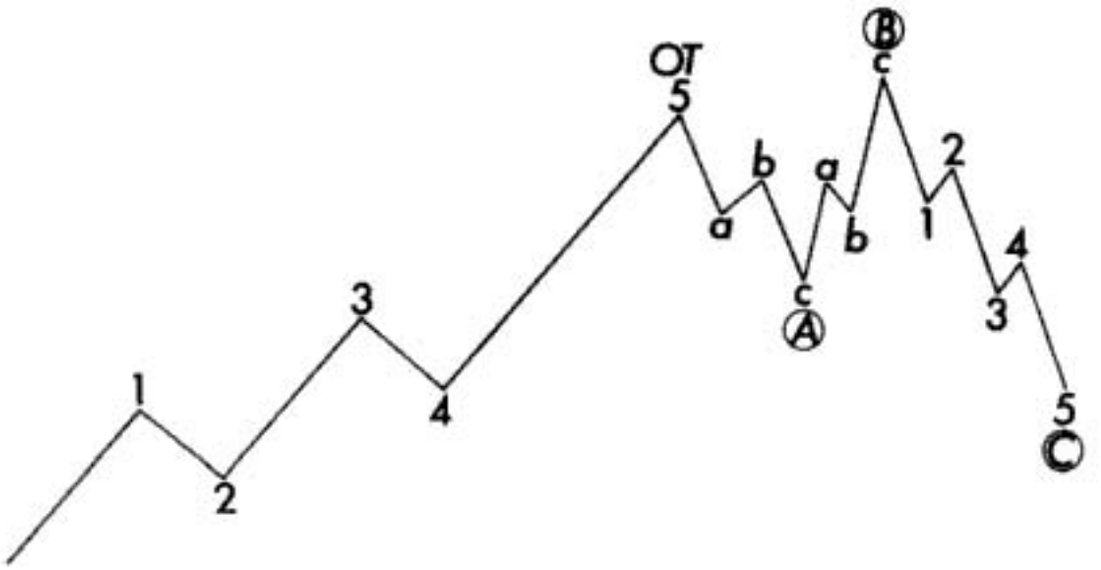

Figure 61

Waves A, B and C all constitute *one* correction, notwithstanding the fact that the end of wave B may be higher than wave 5. This occurred between November 1928 and July 1932.[2] A perfect understanding of this feature is important.

If wave A is a simple zig-zag, wave B will be an inverted flat. This is a case where the law of Alternation gives a warning. "Alternation" is the subject of the next chapter.

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FOOTNOTES

[1] An "irregular top" is simply the higher price recorded by wave B of an irregular flat correction.

[2] See footnote 5 in chapter IV of *The Wave Principle*.

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CHAPTER VIII

ALTERNATION

According to the dictionary, alternation is "occurrence or action of two things or series of things, in turn." Alternation is a law of nature. For instance, leaves or branches usually appear first on one side of the main stem and then on the opposite side, alternating their position. The composition of the human body follows the same rule: 5-3-5-3. An endless list of examples could be cited, but the object of this discussion is the habit of alternation in human activity.

Bull and bear markets alternate. A bull market is composed of five waves and a bear market of three waves. Thus, five and three alternate. The same rule governs in all degrees.

A bull movement is composed of five waves. Waves 1, 3 and 5 are upward. Waves 2 and 4 are downward or sidewise. Thus, the odd numbers alternate with even numbers.

Waves 2 and 4 are corrective. These two waves alternate in pattern. If wave 2 is "simple," wave 4 will be "complex," and vice versa. A "simple" correction in the smaller degrees is composed of one wave downward. The "complex" is composed of three waves downward or sidewise. See Figures 62 and 63.

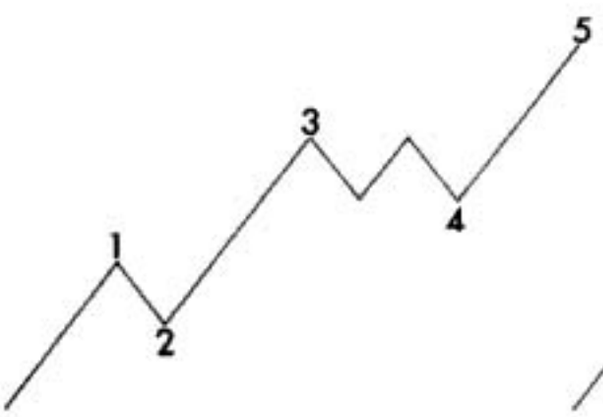

Figure 62

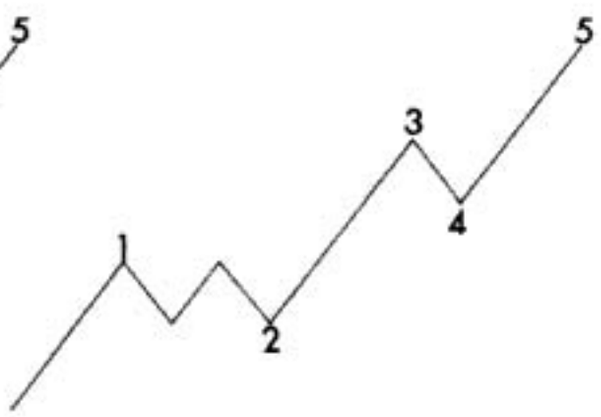

Figure 63

In the larger degrees, such as complete bull and bear markets, the corrective waves are correspondingly larger. Preparation for the final downswing is often tedious. First there is a downward movement of some importance, which I letter with a

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capital A. This is followed by an upward swing and designated as wave B. The third and last movement downward is wave C. Wave A may be a zig-zag pattern. In this event, wave B will be a flat, inverted. If wave A is a flat, wave B will be a zig-zag, inverted. (In any event, wave C will be composed of five waves down. It may be severe and approach the starting point of the previous bull market.) Thus, waves A and B alternate.

The thirteen-year triangle furnishes another example of alternation. From November 1928 to March 31, 1938 is a flat.[1] From March 31, 1938 to October 1939 is a zig-zag, inverted. From October 1939 to May 1942 is a flat.[2]

An irregular top is one in which wave B exceeds the top of the fifth wave of the previous bull market, as explained in Chapter 7. Even these alternate. The top of 1916 was irregular, 1919 regular, 1929 irregular, 1937 regular.

Up to 1906, the Rails led upward movements. For 34 (FSS) years, from 1906 to 1940, the Industrials led upward movements. Since 1940, the Rails have been leading.

FOOTNOTES

[1] See footnotes 4 and 5 in chapter XI of *Nature's Law*.

[2] Actually, this period is either a "five," *or* contains the last part of a triangle for wave B, then a five-wave C. Either count completes the A-B-C from 1937. See footnote 8 in chapter XI of *The Wave Principle*.

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CHAPTER IX

SCALES

To employ either semi-logarithmic or arithmetic scale and not the other as a general practice is erroneous and deprives the student of their value and utility. The arithmetic scale should always be employed unless and until log scale is demanded.

In a movement of five waves upward, a "base line" is drawn against the ends of waves 2 and 4, then a "parallel line" against the end of wave 3. Figure 64 shows the example.

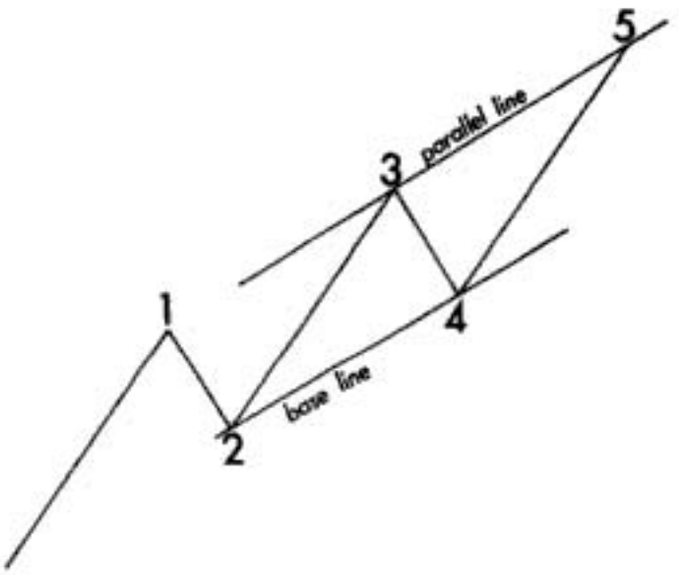

Figure 64

Usually wave 5 will end approximately at the parallel line when arithmetic scale is used. However, if wave 5 exceeds the parallel line considerably, and the composition of wave 5 indicates that it has not completed its pattern, then the entire movement from the beginning of wave 1 should be graphed on semi-log scale. The end of wave 5 may reach, but not exceed the parallel line. For example, if the same figures were graphed on both scales, the pictures would appear as in Figures 65 and 66.

When semi-log scale becomes necessary, inflation is present.[1] If semi-log scale is used and inflation is not present, wave 5 will fail to reach the parallel line by a good margin, as illustrated in Figure 67.

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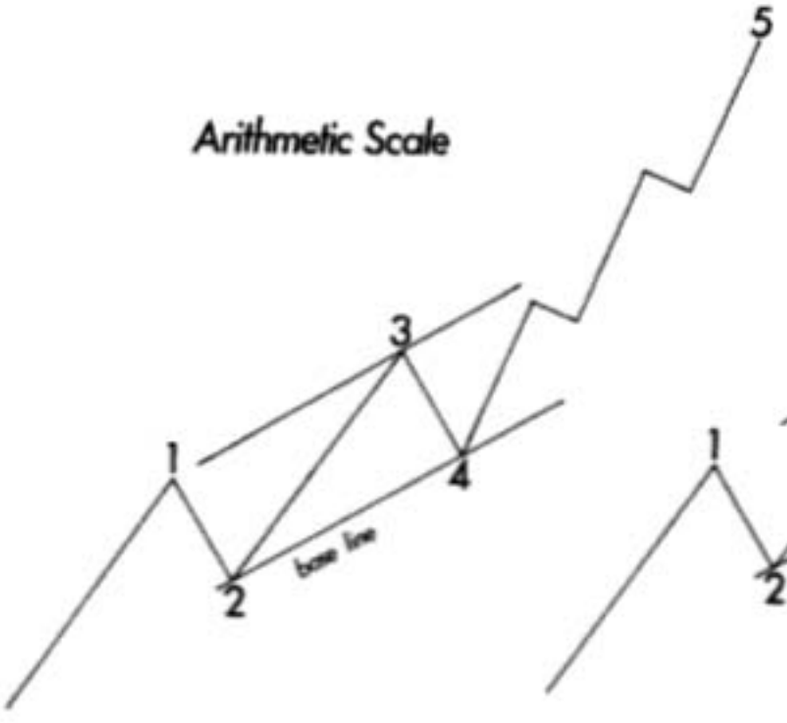

Figure 65

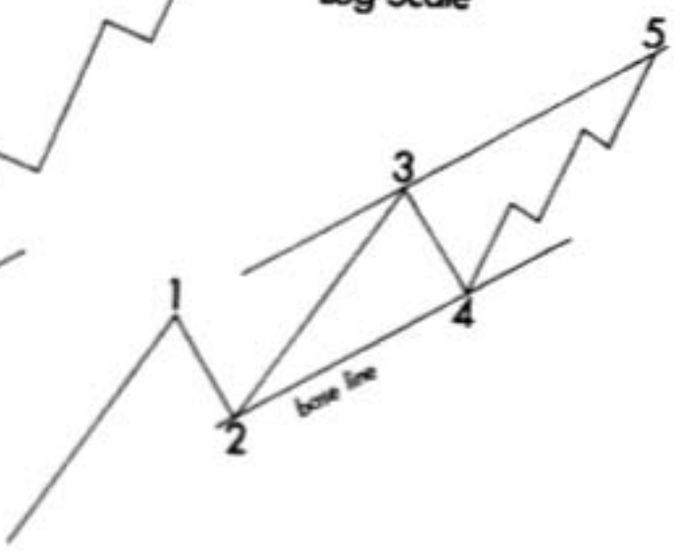

Figure 66

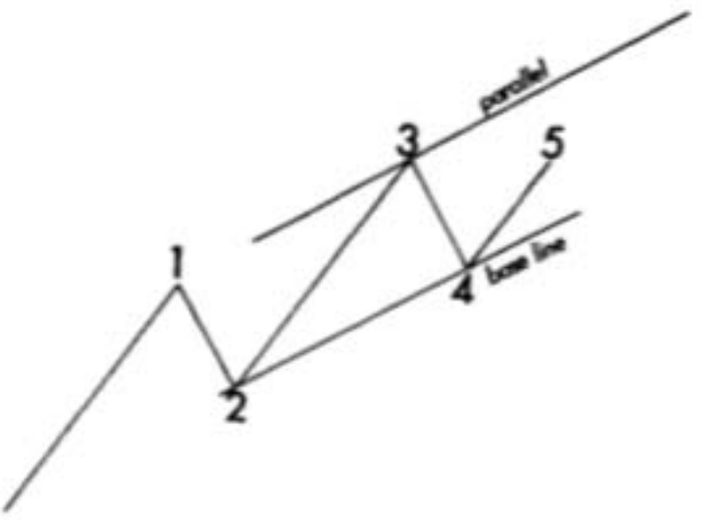

Figure 67

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FOOTNOTES

[1] "Inflation" as later defined by Elliott in chapter 12 is not monetary inflation as we know the term (see footnote 1 in chapter XII). The deciding factor in arithmetic vs. semi-log channeling is simply the shape of the wave. If arithmetic scale is correct, then the move is developing with reference to *points* advanced. If semi-log scale is correct, the move is developing with reference to *percentage* advanced. Anyone can be given the same starting point and ending point and a specific time frame and draw a perfect Elliott wave on both arithmetic and semi-log scale.

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CHAPTER X

EXAMPLES

Demonstrations of Nature's Law in previous pages have been made to facilitate an understanding of the graphs that follow.[1]

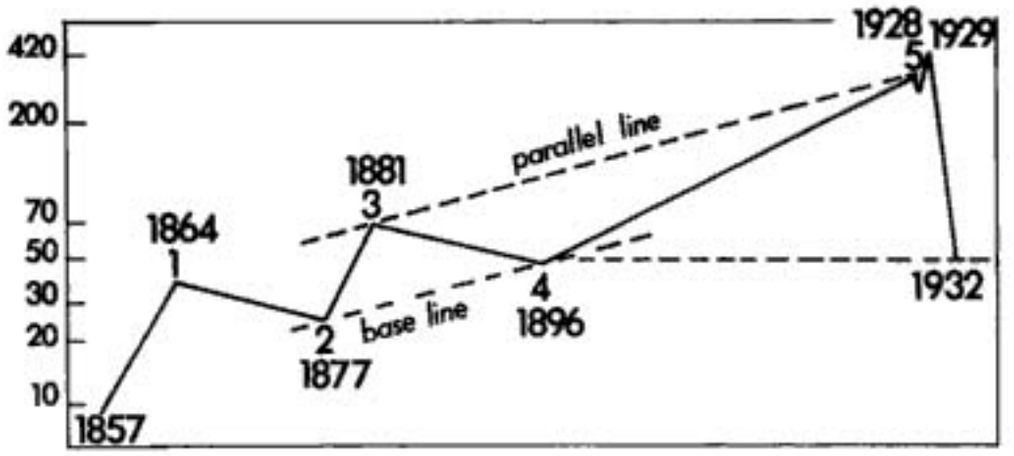

Figure 68

Figure 68 is an outline of the Axe-Houghton-Burgess Index from 1857 to 1932, drawn on semi-logarithmic scale. This is the largest degree for which records are available. Note the five waves from 1857 to November 1928. Note the base line drawn against waves 2 and 4 and the parallel line drawn against wave 3. The end of wave 5 touches the parallel line in November 1928.

The movement as a whole was inflationary; therefore, semi-log is essential. However, arithmetic scale is essential when graphing the several bull markets individually.

Note that the decline to 1932 just reached the beginning of wave 5 in 1896. It was at this 1896 low point that the decline from 1929 to 1932 stopped — in other words, *a normal correction*. Lack of knowledge of past history is the cause of the erroneous use of the expression "The Great Depression," and therefore emphasizes the vital importance of history in this as well as all other activities.

Figure 69 is a detail of wave 5 of Figure 68, drawn on semi-log scale. It is divided into five waves of the next lower degree.

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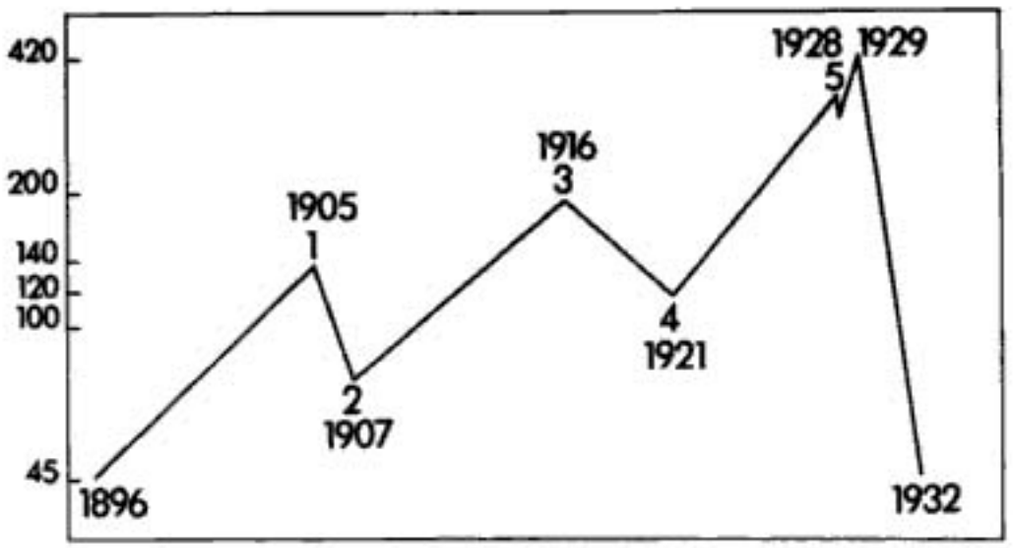

Figure 69

Figure 70 is a graph of the Dow-Jones Industrials for the period 1921 to 1928, drawn on semi-log scale. Note the base line drawn against waves 2 and 4, the parallel line drawn against wave 3, and that wave 5 just touches same.

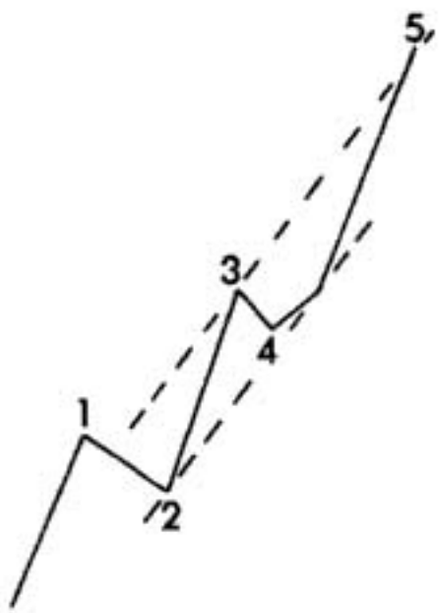

Figure 70

The movement from 1857 to November 1928 is composed of five waves, as shown in Figure 68. The fifth wave from 1896 is subdivided into five waves, as shown in Figure 69. The fifth wave of this movement, starting from 1921, is again subdivided into five waves, as shown in Figure 70. In other words, the entire movement from 1857 is subdivided three times.

In Figure 71, the Dow-Jones Industrial Average is drawn on arithmetic scale and again[2] the amplitude of waves 1 and 3 is 62% of wave 5.

From 1857 to 1928, there were seven bull markets and six bear markets, total 13 (FSS).[3] All bull markets from 1857 to 1928 were *normal* in extent. Remember that from 1921 to 1928 there were three bull markets and two bear markets, not one bull market. The two bear markets were *sub-normal*.

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The time factor is important because it usually confirms and conforms to the pattern. For example, from 1928 to 1942 is 13 (FSS) years. From 1937 to 1942 is 5 (FSS) years. Both periods end simultaneously. The entire movement from 1928 to 1942 is one pattern, a triangle. Each wave of the triangle is 62% of its predecessor. All three factors — pattern, time and ratio — are perfect, and in accordance with the Fibonacci Summation Series. See Figure 71.

In the previous pages, Nature's Law has been explained. The numbers of the FSS apply in three ways: number of waves, time (number of days, weeks, months or years), and ratio of the FSS numbers, 62%.

FOOTNOTES

[1] For a look at the Grand Supercycle, see Figure 1 of "The Future Pattern of the Market" in the Selected Essays section of this book, as well as Figure 98 in the final pages of *Nature's Law*.

[2] "Again," meaning as in the 1896-1928 advance shown in Figure 69 and the 1932-1937 advance shown in Figure 72. This recurrence is remarkable.

[3] Apparently Elliott is counting the first wave up as one bull market and the third and fifth waves up as three bull markets each.

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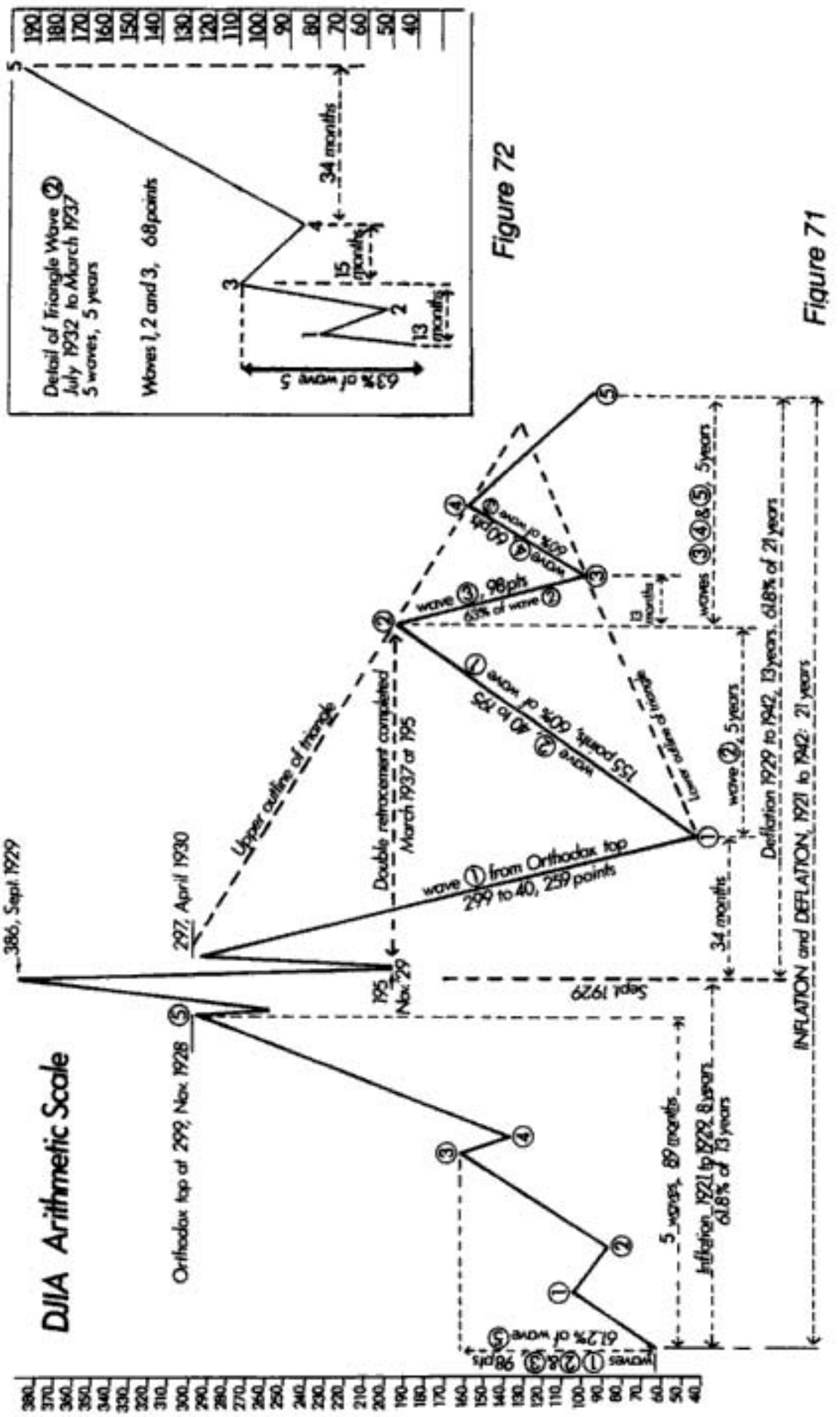
DJIA Arithmetic Scale
386, Sept 1929
Orthodox top at 299, Nov 1928
297, April 1930
195, Nov 29
Upper outline of triangle
Double retracement completed March 1937 at 195
wave ① from Orthodox top 299 to 40, 259 points
wave ② 40 to 195 155 points, 60% of wave ①
wave ③ 98 pts 63% of wave ②
Lower outline of triangle
wave ④ 60% of wave ③
wave ⑤ 60% of wave ④
wave ② 5 years
wave ③ 13 months
waves ③④&⑤ 5 years
34 months
Sept 1929
Deflation 1929 to 1942, 13 years, 61.8% of 21 years
INFLATION and DEFLATION, 1921 to 1942: 21 years
5 waves, 89 months
Inflation 1921 to 1929, 8 years 61.8% of 13 years
waves ① ② ③ ④ ⑤ 98 pts
61.2% of wave ⑤
Detail of Triangle Wave ②
July 1932 to March 1937
5 waves, 5 years
Waves 1, 2 and 3, 68 points
34 months
15 months
13 months
63% of wave 5

Figure 72

Figure 71

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CHAPTER XI

THE THIRTEEN YEAR TRIANGLE[1]

The orthodox top of November 1928 is 299; the bottom of 1932 is 40; net travel: 259 points. The travel from 1932 to 1937 is from 40 to 195, net 155 points. The ratio of 155 to 259 is 60%.

From the orthodox top of November 1928 to July 1932 is wave ① of the thirteen-year triangle. From July 1932 to March 1937 is wave ② of the triangle, as shown in Figure 71. From March 1937 to March 1938 is wave ③ of the triangle.

This index moved to 195 in March 1937 for reasons other than pattern, ratio and time. The advance from 1921 to 1928 was an extension of the fifth wave starting in 1896. As shown in Chapter 6, an extension is "doubly retraced." The decline to 195, from September to November, 1929 was part of the first retracement. The advance from 40 to 195 during 1932 to 1937 completed the double retracement.[2] Note the precise meeting at 195 of November 1929 and March 1937 in Figure 71.

It should be emphasized that the amplitude of the movement from 1932 to 1937 of 155 points is not that of a typical bull market.[3] Its extent was forced by the four powerful technical forces described above, i.e.,

— The necessity of recovering 62% of the down movement from November 1928 at 299 to July 1932 at 40.

— To complete double retracement of the 1921-1928 extension.

— The time element, sixty months or 5 years.

— Pattern.

In fact, the movement complied with four requisites — wave pattern, amplitude, double retracement and time — all of which are based solely on FSS.

The ratio of amplitude of the 1921-1928 period is such that the advance of waves ① and ③ traveled 98 points, or 62% of wave ⑤, 160 points.

Note the horizontal lines across the bottom of Figures 71 and 72:

— 1921 (beginning of inflation) to 1942 (end of deflation): 21 years.

— 1921 to 1929: 8 years (62% of 13 years).

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— July 1921 to November 1928: 89 months.
— September 1929 to July 1932: 34 months.
— July 1932 to July 1933: 13 months.
— July 1933 to July 1934: 13 months.
— July 1934 to March 1937: 34 months.
— July 1932 to March 1937: 5 years.
— March 1937 to March 1938: 13 months.
— March 1937 to April 1942: 5 years.
— 1929 to 1942: 13 years (62% of 21 years).

The pattern and description of triangles are shown in Chapter 5. The triangle between November 1928 (the orthodox top) and April 1942 is the symmetrical type. It differs from the ordinary type because it is composed of two patterns, flat and zig-zag. First there was a flat, then a zig-zag and again a flat.[4] This was necessary because of its immense size, the alternation of patterns, the necessity of advancing to 195 in 1937 in order to complete a double retracement of the inflationary extension from 1921 to 1928, the necessity of completing its pattern by 1942 (21 years from 1921), the necessity of maintaining the ratio of 62%, and the necessity of retracing the entire fifth wave from 1896 to 1928, all of which is a very large order.

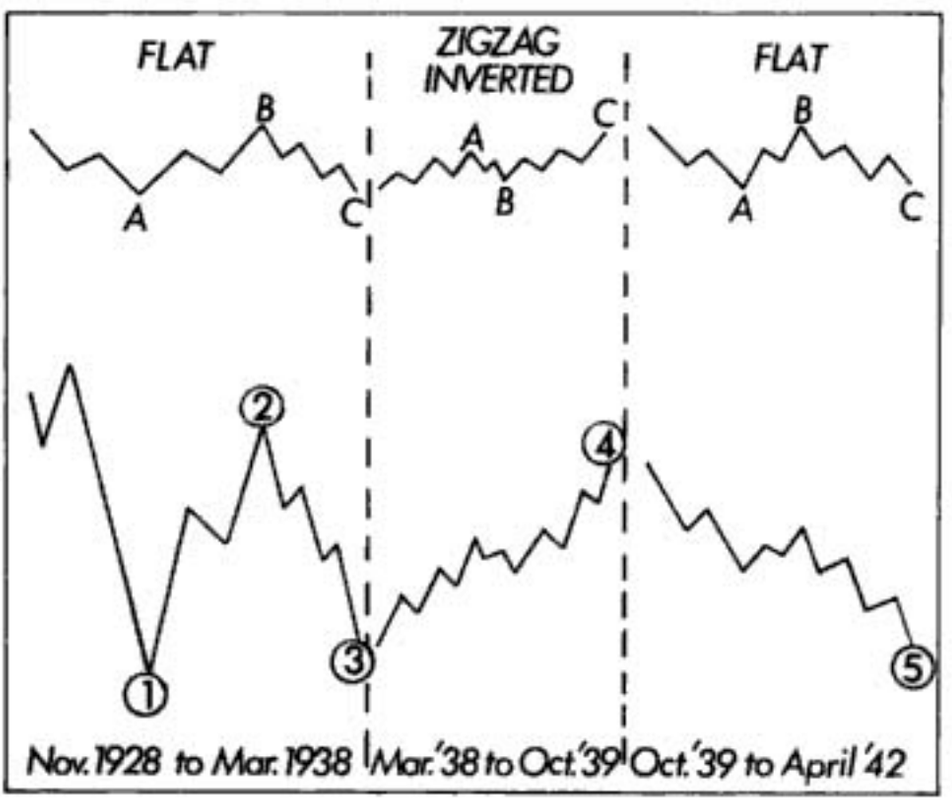

Figure 73

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The thirteen-year triangle from 1928 to 1942 was composed of three patterns, as follows:

— November 1928 to March 1938: a flat[5] (triangle waves ①, ②, and ③).

— March 1938 to October 1939: a zigzag, inverted (triangle wave ④).

— October 1939 to April 1942: a flat (triangle wave ⑤).

Note the alternation of patterns: flat, zig-zag and flat. Many other examples of similar nature could be cited. Both the flat and the inverted zig-zag are described in Chapter 5. They and the corresponding triangle wave are reproduced in Figure 73.

Figure 74 is a graph on arithmetic scale of the Dow-Jones Industrial Average from November 1928 to April 1942. Each vertical line represents the monthly range.

Triangle wave ① from 1928 to 1932 is composed of waves Ⓐ, Ⓑ and Ⓒ. Wave Ⓐ is composed of three waves down from November to December, 1928. They were fast and therefore visible only in the daily range. Wave Ⓑ is an irregular top in the form of an inverted flat. Wave Ⓒ is composed of five waves down from September 1929 to July 1932 (see numbers on chart), and consumed 34 months.

Triangle wave ② from 1932 to 1937 is a typical bull pattern because it is composed of five waves.[6] However, due to its abnormal size, it may be classed as an inverted flat[7] of very large degree because it forms part of a "corrective." Wave ① consumed 5 years.

Triangle wave ③ was down in five waves from 1937 to 1938 and lasted 13 months. Triangle waves ①, ②, and ③ therefore constitute a flat, from November 1928 to March 1938.

Triangle wave ④, 1938 to 1939, is an inverted zig-zag.

Triangle wave ⑤ from 1939 to April 1942 is a flat.[8] It droops and is very long. Its extreme length was necessary in order to coincide with the overall time period of 13 years from 1928 and 21 years from July 1921.

As stated in Chapter 5, the fifth wave of a triangle may or may not be confined within the outline of a triangle. In this case it exceeded the outline.[9] Nevertheless, it is a perfect flat of three waves, marked Ⓐ, Ⓑ, and Ⓒ. Wave Ⓑ is 62% of wave Ⓐ and 62% of wave Ⓒ. In other words, waves Ⓐ and Ⓒ are the same length.

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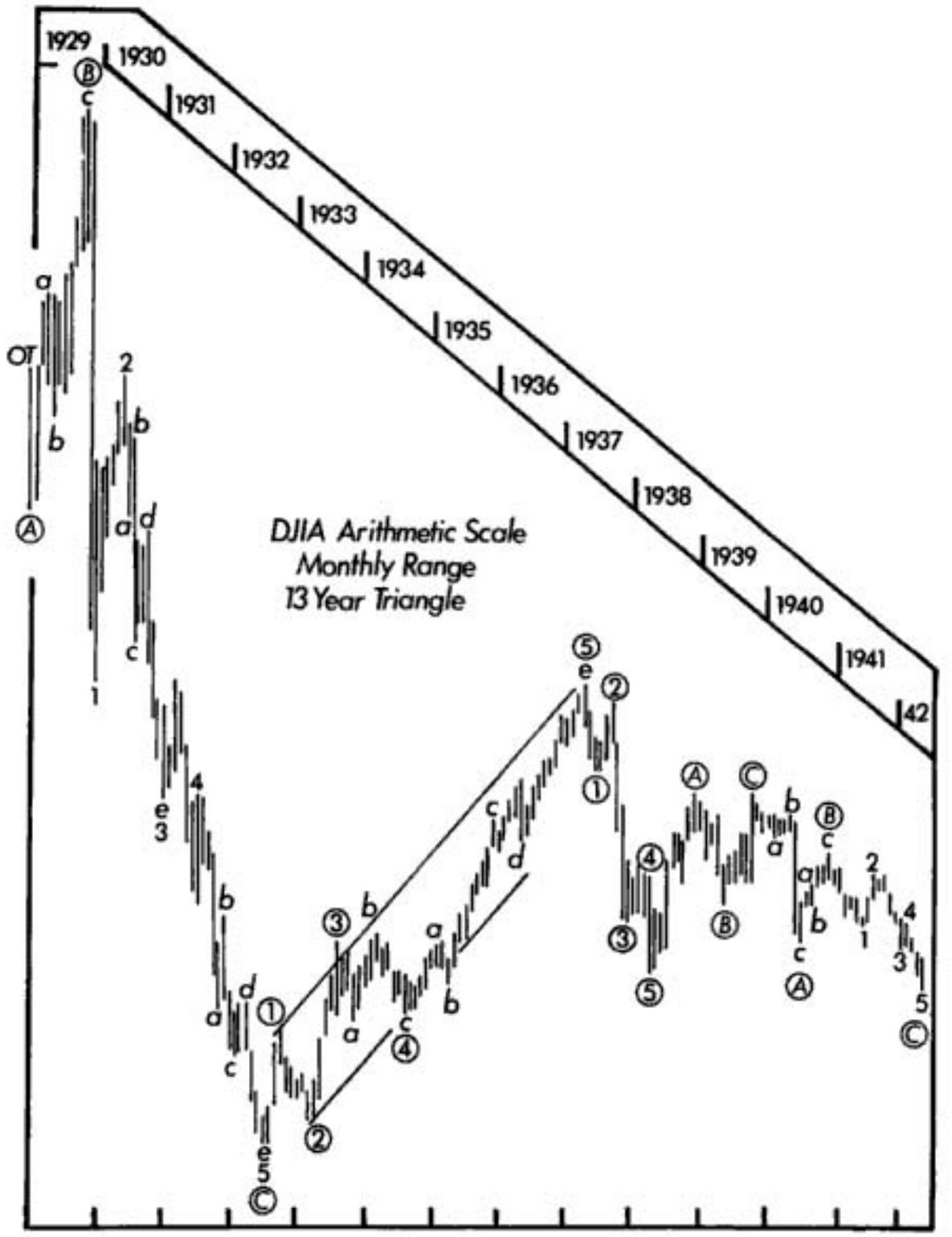

Figure 74

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FOOTNOTES

[1] Elliott's troubles with interpretation in this volume are due almost entirely to the concept of the thirteen-year triangle. While many of the features in the 1928-1942 period are fascinating, and while the concept helped Elliott call a major low in 1942, the thirteen-year triangle concept as such is invalid. The main problems are that the 1932-1937 rise is a "five" and the 1937-1938 decline is a "five," thus eliminating them as possible triangle legs since all triangle legs must be "threes." The most persuasive argument that a triangle had formed was the series of .618 retracements, all within perfectly converging trendlines, an occurrence that was indeed quite uncanny. However, this phenomenon can occur *across different waves* (as it did from 1976 to 1979), and is not enough justification, *by itself*, to claim that a true triangle is being formed. Unfortunately, Elliott had made up his mind on an irrelevant point outside the Wave Principle, namely that 1929-1932 was too short a time period to correct the previous Supercycle. This assumption led him to the thirteen-year triangle interpretation, which in turn led him into trouble with the basics of wave form, as he tried to fit the subwaves into his predetermined concept. This error of interpretation should not detract from the reader's enjoyment of Elliott's fascinating discoveries and analysis with regard to the period after the 1929 peak.

[2] While these turning points are not coincidence, tying them to the "double retracement" rule, at least as it is stated in theory, seems to be stretching the rule too far. The extension within the *fifth* wave of the 1921-1928 rise *was* doubly retraced as necessary, the top part by Elliott's A and B, and the rest by 1 of C and 2 of C. The reason that the *entire* 1921-1928 rise failed to doubly retrace entirely by means of an irregular correction is that, as Frost and I have concluded, 1921-1929 was not itself an extended wave. The extended wave in the 1857-1929 sequence was the third, as is normal. Therefore the fifth would have no reason to be doubly retraced by an irregular top. The fact that the first retracement covered more than the entire fifth wave is further evidence that the wave was not an extension. Even if we were to consider it an extension, the ensuing fifth Supercycle wave would constitute the second retracement eventually. Still, the action of the market after the 1929 peak is intriguing, and one can see why Elliott considered his double retracement rule satisfied.

[3] True. This is the most dramatic bull market in U.S. history in terms of percentage increase over time.

[4] Elliott is describing all of the first three waves together as a flat because the third wave of the triangle is so undeniably a "five."

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[5] Elliott breaks his own rules in this interpretation. If 1937-1938 is the "C" leg of a flat, it must be a "five." If it is a leg of his triangle, it must be a "three." He shouldn't be able to have it both ways.

[6] Absolutely. You will notice that in Figures 72 and 74, Elliott's labels are not consistent with his triangle thesis, but with the correct interpretation.

[7] Frost and I discuss this error in our book. It is possible to rationalize any five-wave move as a "three," but only at the expense of the utility of the Wave Principle and what we call the "right look." Flats are so called because they are *flat*. The B wave of a flat always recedes deep into A-wave territory. In a five-wave move, there is no overlapping of waves, by definition. Therefore the 1932-1937 advance must be classified as a "five."

[8] Again, flats are flat and should not "droop." Actually it is a five-wave decline, with no overlapping, finishing off the zigzag that began in 1937. To count it correctly, put 1 where Elliott has a, 2 where he has b, 3 where he has Ⓐ, 4 where he has Ⓑ and 5 where he has Ⓒ. There is a slightly better count involving a triangle. Beginning at the 1938 low, put Ⓐ where Elliott has Ⓒ, Ⓑ where he has the next Ⓐ, Ⓒ where he has the next Ⓑ, ① where he has 1, and ① where he has 2. This triangle is wave B of the zigzag from 1937, with the decline from its end then being wave C, which subdivides nicely into a "five." This count is illustrated below.

[9] It also exceeded the low of wave three of the triangle, which it should not do.

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CHAPTER XII

INFLATION

The term "inflation" is defined in the dictionary as "extension beyond natural limits." One bull market does not exceed "natural limits." A series of bull markets, one above the other, would be "beyond natural limits." One bull market would not be "above another" were it not for sub-normal intervening bear markets.

Inflation[1] occurred during the 'Twenties because of sub-normal bear markets. During this period there were three normal bull markets and two sub-normal bear markets, total five. Warnings of inflation occurred in the following order: normal wave 1, sub-normal wave 2, normal wave 3, sub-normal wave 4, and penetration of the parallel line by wave 5 on arithmetic scale (see Chapter 9, Figure 65).

Figure 75 pictures a normal bull market and a normal bear correction (waves a, b and c) which penetrates the base line substantially. Figure 76 pictures a sub-normal bear correction that barely penetrates the base line.

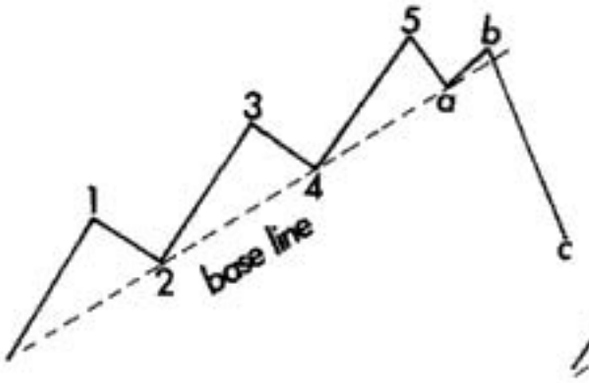

Figure 75

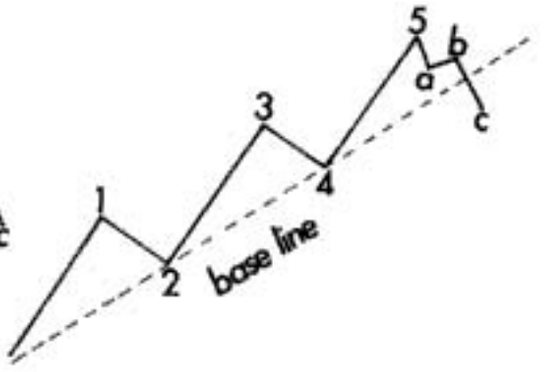

Figure 76

Figure 77 shows the Dow-Jones Industrial Average from 1921 to November 1928 on arithmetic scale. Wave 5 penetrates the parallel line. Penetration of the parallel line demands that the entire picture from 1921 should be graphed on log scale. Figure 78 pictures the same average (monthly range) on log scale. Wave 5 touches but does not penetrate the parallel line.

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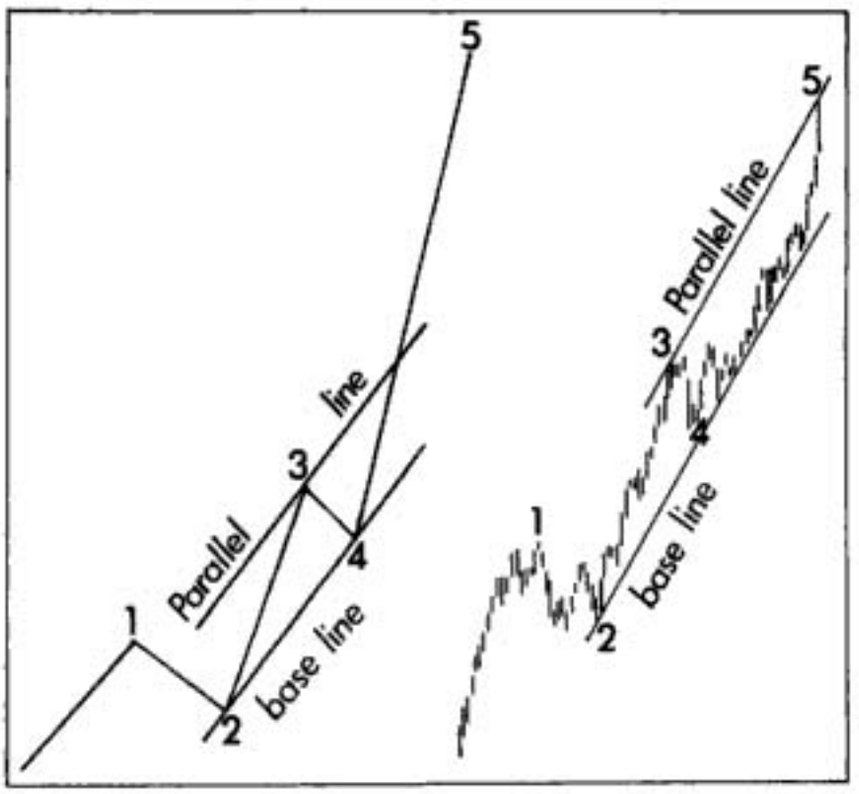

Figure 77 *Figure 78*

There are three methods of ascertaining in advance at what point, and at what time inflation will terminate: that described above, ratio (described in Figure 71), and time (described in Figure 71).

FOOTNOTES

[1] Elliott is using a certain dictionary definition of inflation, not the monetary one. By his definition, "inflation" occurs in a market that undergoes acceleration in terms of points advanced per unit of time. See footnote 1 in chapter IX.

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CHAPTER XIII

PRICE OF GOLD

Another example of the importance of differentiating between the virtues of arithmetic and log scale is the price of gold. The graph of this item covers one bull market from 1250 to 1939, nearly seven centuries. In Figure 79, wave ② is simple and wave ④ is complex. Note the letters Ⓐ, Ⓑ and Ⓒ of wave ④.

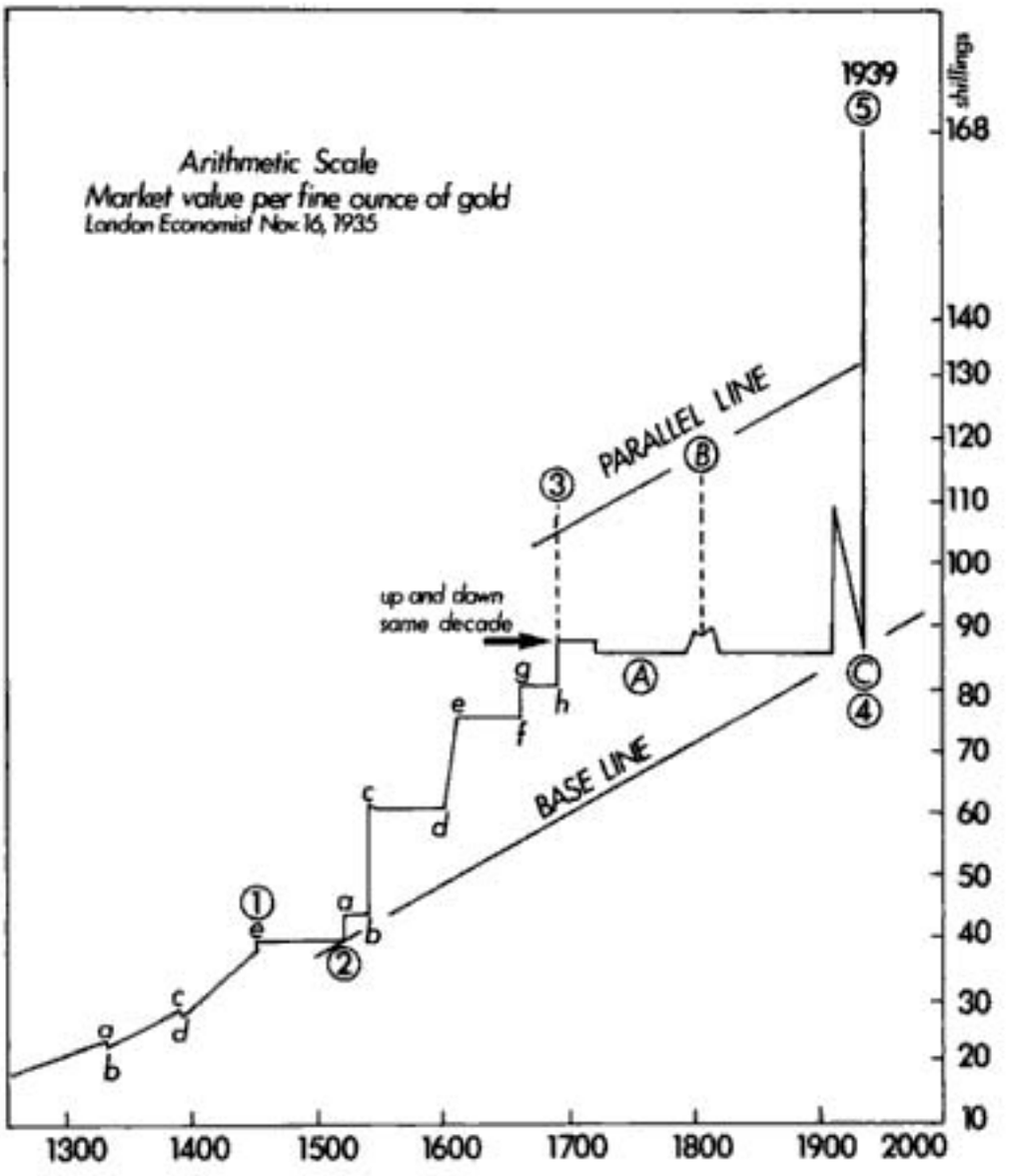

Figure 79

In Figure 79, plotted on arithmetic scale, the price line exceeds the parallel line, therefore semi-log scale is demanded as

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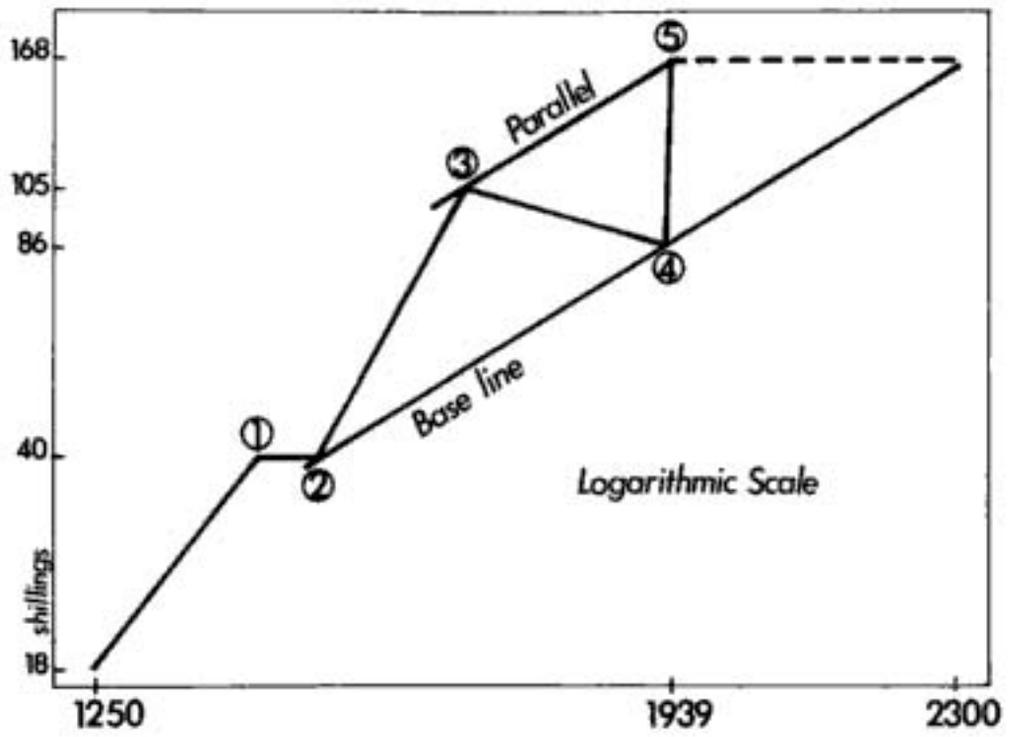

Figure 80

shown in Figure 80. The parallel line on logarithmic scale indicates the final top of inflation of any human activity.[1] When an advance of five waves is completed *within* the channel on *arithmetic* scale, inflation does not exist.

The gradual rise of wave ① in Figure 79 suggests that the market price of gold during that period was "free," that is, not fixed by any authority. Thereafter advances were abrupt and corrections sidewise, which indicates that the price was dominated by some authority, presumably political. Corrections may move sidewise, downward, or downward and sidewise as shown in wave ④ of Figure 79.

Under the law herein described, when a pattern has been completed as indicated in Figure 80 on log scale by the contact of wave ⑤ with the parallel line, no further advance in price will occur until *after* the price line has penetrated the base line at some point. Therefore, the probability is that the present price of gold, 168 shillings, will remain stationary, at least until it contacts the base line about the year 2300, as indicated by the junction of the dashed lines at the extreme right of the graph.[2]

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FOOTNOTES

[1] True, if it is drawn using properly selected wave termination points.

[2] Some people have made a career of deriding Elliott for this conclusion. Perhaps he should have avoided commenting from such sketchy data. Certainly he should have been less dogmatic and described alternative possibilities. Regardless, there is no problem for the Wave Principle or its practice, since the penetration of the upper parallel line immediately suggested an extended third wave in development.

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CHAPTER XIV

PATENTS

The expression "human activities" includes every activity, not only the stock market, but production, life insurance, movements from cities to farms and vice versa, etc. as shown in miscellaneous items listed in Chapter 3.

Occasionally some rather unusual items present themselves, such as for example patents, which is a human activity but not emotional.[1] Figure 81 is the record of applications for patents from 1850 to 1942. Note the five waves. The fifth wave extended from 1900 to 1929. The Industrial Average followed the same pattern during almost the same period (see Figure 82). Note the "correction" of patents from 1929 to 1942 in three waves, A, B and C. Stocks followed the same pattern during the same period, except that from 1928 to 1942 the "correction" was a triangle instead of three waves A, B and C.

In early days, farming was the principal occupation. Here and there a farmer might own a store or manufacture something as a sideline. Manufacturing was on a piece-work basis and performed in the home. Natural resources, climate, genius and democracy in the United States required the formation of corporations to finance individual initiative. Inventions and the introduction of machinery gradually changed everything. The Louisiana Purchase, the conquest of California, the acquisition of Texas and Oregon, together with settlement of boundaries with Mexico and Canada, added immensely valuable territory.

Genius was (and still is) the principal asset. This is demonstrated by the graph of patent applications from 1850 to 1942. Note that the pattern coincides with that of the stock market. The United States is radically different from any other country in one vital aspect: our ancestors hail from all parts of the world. They were dissatisfied with tyranny and politics of their homelands and came here to enjoy liberty and develop their genius.

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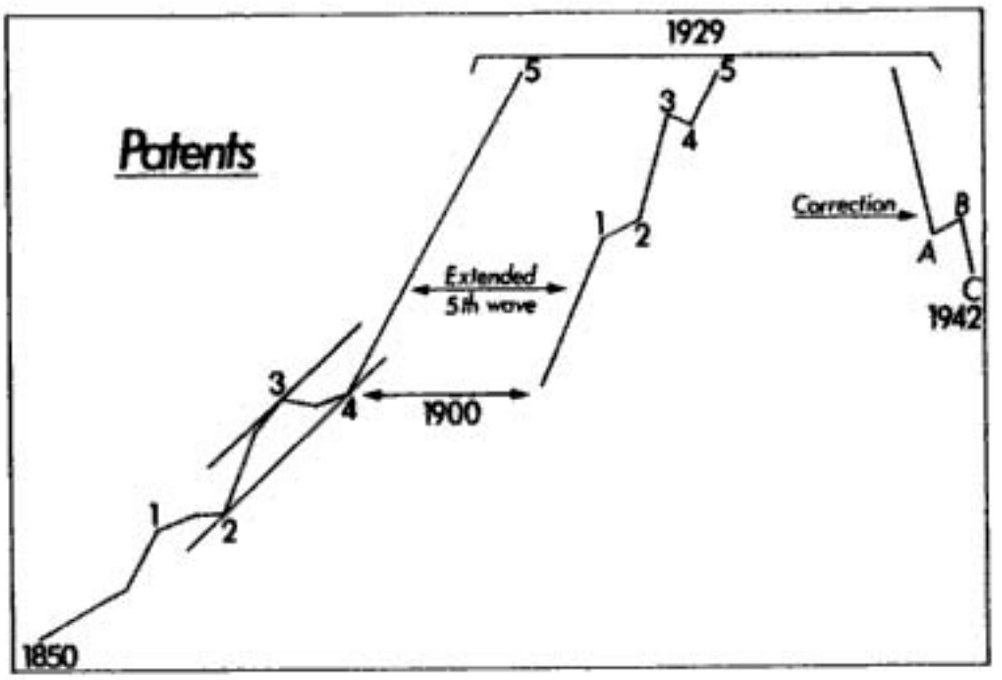

Figure 81

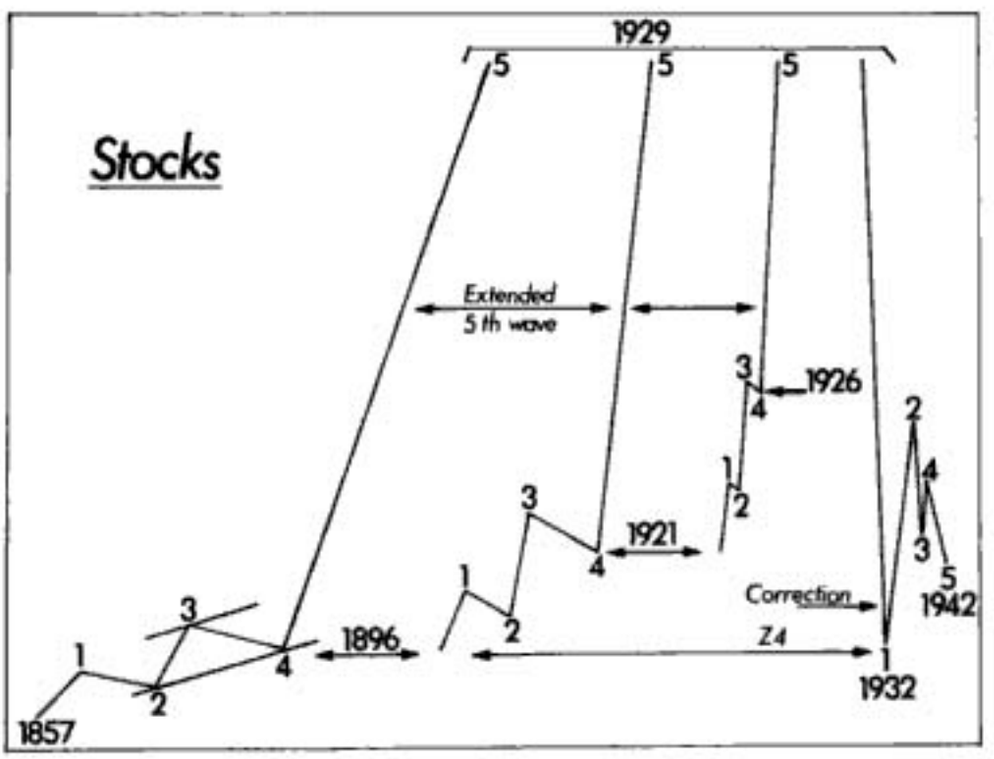

Figure 82

FOOTNOTES

[1] The Wave Principle tracks more than emotional phenomena because it is also a record of the progress of Man, which is arguably patterned after his collective emotional swings. It can even be postulated that the moods reflected by the averages *cause* progress; presumably Man will produce more and invent more when the dominant mood is "up" rather than "down."

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CHAPTER XV

TECHNICAL FEATURES

The movement of one activity is seldom, if ever, a reliable guide for another. Figure 83 shows graphs of three indices — the London Industrials, the Dow-Jones Industrials and production in the United States. All are plotted from 1928 to January 1943. Production figures are from the Cleveland Trust Company.

The Dow-Jones Industrials (middle graph) registered a five-wave triangle from November 1928 (the orthodox top) to April 1942. The amplitude of each of the second, third and fourth waves of the triangle to its predecessor is approximately 61.8%. The existence of the triangle is proved by its outline, the time element, the composition of each wave, and the uniform ratio of each wave to its predecessor. High speed inflation from 1921 to 1929 (8 years) caused the rapid decline to 1932 (34 months). These, in turn, caused the symmetrical triangle, which simulates a pendulum coming to rest.

The triangle disregarded the following events, which occurred during its 13-year period: reversal from Republican to New Deal administrations, devaluation of the dollar, repudiation of the gold clause in Government bonds, the shattered two-term precedent, the second World War which started in 1939, and the rise in production, the index of which started upward in 1938 and finished its pattern of five waves in June 1941.

The London Industrials (top graph) did not follow New York stocks in 1929. This index registered tops in January 1929 at 140 and in December 1936 at 143. The lows in 1932 and 1940 were the same, 61. From 1940 to January 1943, this index advanced to 131. Between January 26 and July 28 1939, the London Industrial Average formed a triangle.

London stocks invaded the stratosphere in 1720, 1815 and 1899, approximately 89 years (FSS) apart. When and if English stocks should inflate, it does not follow that ours will do so.

A production index prepared by the Cleveland Trust Co. (bottom graph) registered tops in June 1929 at 116 and in 1936 at 112, and a low in 1938 at 63. From 63, a complete advance of five waves finished its pattern in June 1941, before the D-J Industrials started up from the end of the triangle in April 1942.

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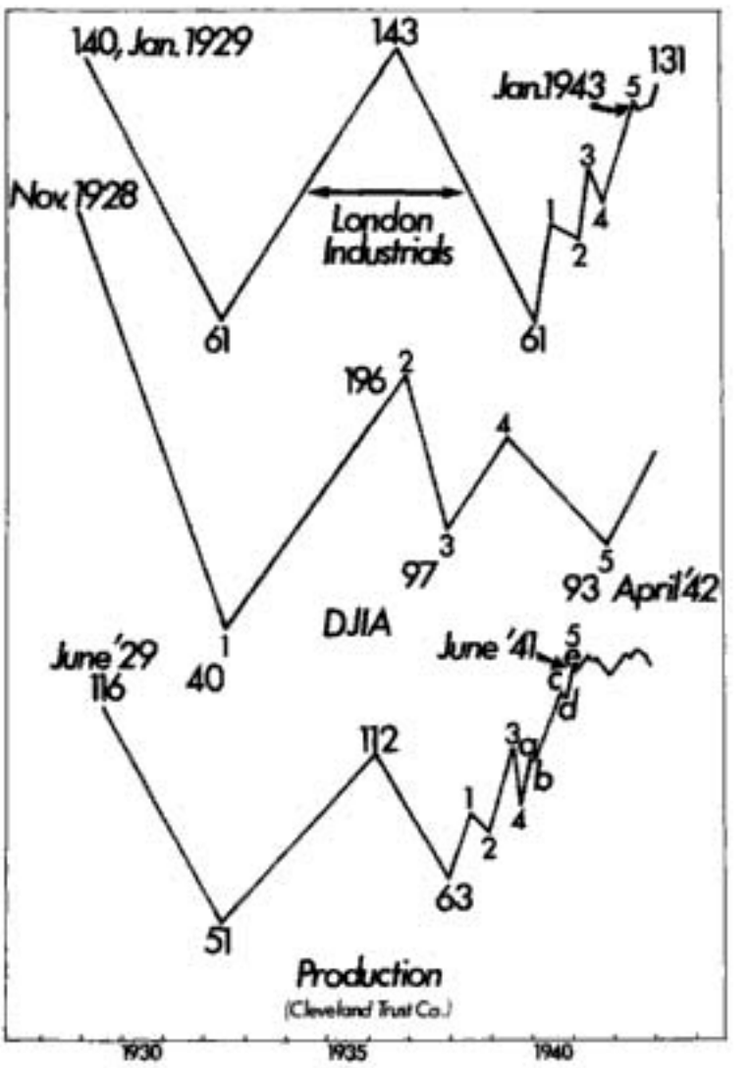

Figure 83

During the period from 1857 to 1928, we participated in three wars, Civil, Spanish and World War I. Nevertheless, the pattern of the Supercycle movement was perfect, as demonstrated elsewhere.

Stocks and commodities have never inflated in unison. Therefore, if commodities explore the stratosphere, it does not follow that stocks will do likewise at the same time. Commodities inflated in 1864 and 1919, 55 years apart.[1]

The worthlessness of news is demonstrated in the next chapter.[2] A financial writer said:

> "The fact that security prices have been advancing on the good news from Salerno and that they reacted in August on similar good news from Sicily leads students to conclude that the August reaction was due chiefly to technical considerations rather than to military happenings."

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One day, London experienced a severe "blitz." London stocks advanced and New York stocks declined. Financial writers in both places stressed the blitz as the cause. At the time, London was in an uptrend and New York in a downtrend. Each followed its pattern regardless of the blitz. The same wave behavior occurred following Mussolini's exit on July 25.

The above analysis proves that technical factors govern the market at *all* times.

FOOTNOTES

[1] And again in 1974! In terms of years, the Fibonacci number 55 is the length of the so-called Kondratieff Wave of economic activity.

[2] Actually, chapter XVII.

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CHAPTER XVI

DOW-JONES RAIL INDEX

An examination of the Rail index is interesting, informative and profitable. Transportation is the most important human factor in our economy because of the great distances between borders since the Louisiana Purchase, the settlement of boundaries with Mexico and Canada, and the additions of Texas and California.

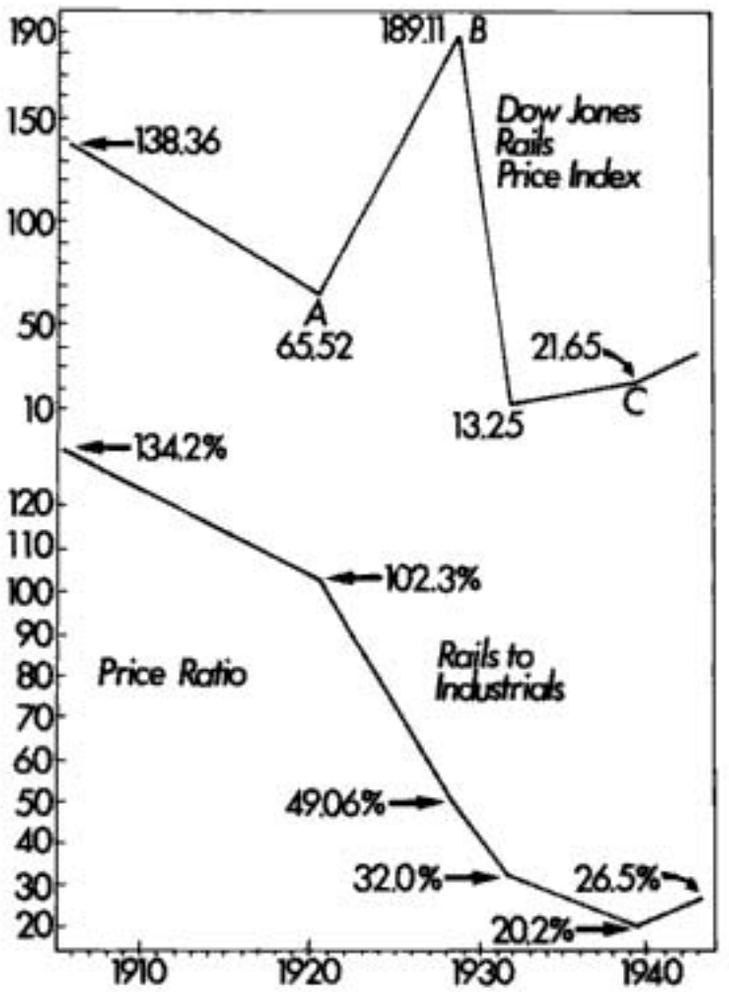

Figure 84

The bottom graph in Figure 84 is the ratio of the Rail index to the Industrial index from 1906 to January 1944. This demonstrates that, in relation to the Industrials, the Rails were persistently weaker from 1906 to 1940 (34 years). The causes of

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this behavior were the excessive proportion of bonds to common stocks, the Panama Canal which opened for business in 1914 (1906 + 8 = 1914), and the automobile and the airplane. These three factors resulted in weakness of both rail bonds and stocks to such an extent that in 1940, one third of rail mileage was in receivership and another third on the borderline.

The second World War temporarily removed Panama Canal competition and otherwise increased rail revenue, both passenger and freight. The extraordinary revenue that the Rails enjoyed since 1940, especially after Pearl Harbor, enabled the railroad companies to reduce their bonded indebtedness, and in consequence, fixed charges. This benefit is permanent. See Figure 85.

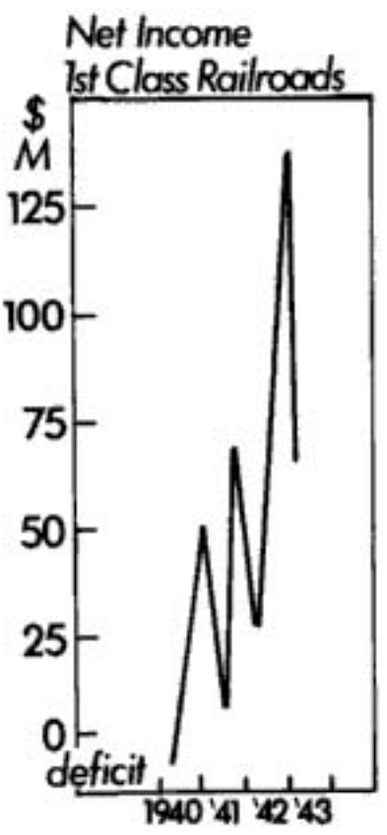

Figure 85

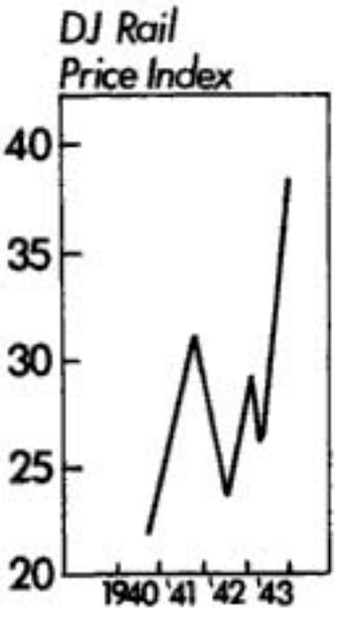

Figure 86

The Rails registered their *ratio* low point in 1940, and from then to July 1943 advanced as shown in Figure 86. The Industrials bottomed two years later in April 1942, at the end of the thirteen-year triangle.

During the 34 (FSS) year period between 1906 and 1940, the Rails reversed downward before the Industrials and reversed upward after the Industrials. Since 1940, this practice reversed; that is, the Rails have been first to reverse upward and last to reverse downward. This practice may continue for some years.

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CHAPTER XVII

THE VALUE OF NEWS

Wall Street has an adage that "news fits the market." This means that, instead of the news "making the market," the market foresees and appraises the importance of the underlying forces that later may become news. At best, news is the tardy recognition of forces that have already been at work for some time and is startling only to those unaware of the trend.

The forces that cause market trends have their origin in nature and human behavior and can be measured in various ways. Forces travel in waves, as demonstrated by Galileo, Newton and other scientists. These forces can be computed and forecast with considerable accuracy by comparing the structure and extent of the waves.

The futility in relying on anyone's ability to interpret the value of any single news item in terms of the stock market has long been recognized by experienced and successful traders. No single news item or series of developments can be regarded as the underlying cause of any sustained trend. In fact, over a long period of time the same events have had widely different effects, because trend conditions were dissimilar.

This statement can be verified by a casual study of the forty-five year record of the Dow-Jones Industrial Average. During that period kings have been assassinated, there have been wars, rumors of wars, booms, panics, bankruptcies, New Era, New Deal, "trust busting," and all sorts of historic and emotional developments. Yet all bull markets acted in the same way, and likewise all bear markets evinced similar characteristics that controlled and measured the response of the market to any type of news as well as the extent and proportions of the component segments of the trend as a whole. These characteristics can be appraised and used to forecast future action of the market, regardless of the news.

There are times when something totally unexpected happens, such as an earthquake. Nevertheless, regardless of the degree of surprise, it seems safe to conclude that any such development is discounted very quickly and *without reversing the indicated trend under way before the event.*

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One of the safeguards in this respect is the willingness of experienced traders to "sell on good news and buy on bad news," especially when such news runs counter to the prevailing trend. This factor tends to upset the expectancy of the public for the market to react directly and in the same manner to similar news at different times.

Those who regard news as the cause of market trends would probably have better luck gambling at race tracks than in relying on their ability to guess correctly the significance of outstanding news items. Mr. X.W. Loeffler of Westwood, New Jersey, publishes a graph of the Dow-Jones Averages listing the important news events in chronological order (price $1). Examination of this graph shows clearly that the market has advanced and declined on the same kind of news. Therefore, the only way to "see the forest clearly" is to take a position above the surrounding trees.

War starts worldwide forces so powerful that they would seemingly dominate all other considerations and drive the market farther and farther in the same direction. At various times war incidents receive front page display. Sharp breaks in the market during August and September, 1937, again in March, August, and September, 1938, and in March-April 1939 all coincided with war developments. Yet when war was actually declared on September 1, 1939, the market advanced violently on tremendous volume. The only satisfactory explanation for this curious behavior is derived from the technical position of the market cycle at these times.

In 1937, 1938 and early 1939, the market had completed important rallies and was resuming the downward trend at the time of the war incidents. Consequently, these "war scares" were construed bearishly and served simply to accelerate the downward trend. On the other hand, the market was in an entirely different position in September 1939 when the war started. Charts show that a downward phase started in the latter part of July 1939, as a correction of the upward movement from mid-April of that year. This downward phase was *fully completed a week before September 1*, and in fact the market advanced briskly during this short period about ten points from the wave bottom of August.

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On the actual announcement of the war, the market fell sharply during the day to a level fractionally below the August bottom and then bounded upward with amazing speed. Those who bought selected stocks at the bottom in August and on the secondary war-scare bottom reaped large profits compared with those who tried to buy stocks in the wild scramble that followed. The late comers in most cases were sorry they had bought, because they paid top prices and sold out at substantial losses. Actually, the peak of the market for the steels and other primary war stocks was reached in less than two weeks after the start of war. Since then, the market has more consistently placed a bearish construction upon the outlook for war stocks and war profits because of the broad bear cycle, which was resumed in the fall of 1939. In contrast, the effect of World War I (1914-1918) was primarily bullish due to the type of price cycle from mid-1913.

When France collapsed early in June 1940, most people felt that the war would be very short and Hitler would inevitably overrun England. Waves, however, had indicated in *May*, when the Dow-Jones Industrial Average reached 110.61, that the worst of the phase was over and that stocks should be bought for a substantial intermediate recovery. Even in the midst of the highly emotional news from Europe during the first half of June, the Average reacted only to 110.41.

At the time of the November 1940 election, sensational news announcements were published regarding huge expenditures to be made for defense and to aid England. Most economists and observers reasoned this would set inflationary forces in motion, and bought stocks. At the same time, however, waves indicated that the inflation would not benefit stocks from a price standpoint, and the upward movement since June having been completed, much lower stock prices would develop. Subsequently, the market declined nearly fifty points.

The general belief that current news affects the market is widespread and even exploited. If current news were responsible for fluctuations, cycles would not occur. Whenever one is inclined to believe in "news," I recommend careful review of the pattern and wave ratios in Figure 71, then recall the events and opinions expressed at numerous times during that twenty-one year period.

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CHAPTER XVIII

CHARTING

Students might benefit by detailed suggestions which I have found essential. Model charts are shown in Figure 87.

Accurately observing the lower degrees of waves of a movement requires the daily range of price fluctuations. This high-low range was inaugurated by Dow-Jones in 1928.

The chart spacings recommended for the purpose of emphasizing price fluctuations are a vertical quarter inch for one point of the Industrial Average, a vertical half inch for one point of the Rail Average, and a vertical half inch for one point of the Utility Average. Such spacings on a chart facilitate accurate interpretation. The quarter inch scale is subdivided into fifths, thus eliminating any guesswork as to the exact spot at which to locate the daily range and hourly record.

Likewise it is important to space the distance between days as shown on the model charts. When each vertical line of the chart is employed, instead of every other line, the result is that lines of the price range are too cramped for comfortable reading. Do not leave any space for holidays or Sundays.

Precisely the same scale and forms are recommended for the hourly record — one quarter of an inch horizontally for a session of five hours, or one of the smallest squares for each hour. Do not leave any space following a two hour session on Saturday. Do not show the opening figure. The high-low range for the day should be shown at the end of the last hour of each session. All of these recommendations are portrayed in Figure 87.

Never economize in chart paper at the expense of clarity. When a movement begins on one sheet and terminates on another, clarity is jeopardized. The same is true when a movement is discontinued at the top of the sheet and started again at the bottom.

Chart paper which will properly clarify interpretations of waves is manufactured by Keuffel & Esser, and is for sale by them and by large stationery stores. It is available in these sizes: by the yard 20" wide, in sheets 8 1/2" x 11," and in sheets 10" x 15." Two weights of paper in all three sizes are offered.

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It is suggested that charts 10" x 15" be used, and that not more than two averages be charted on one sheet. For example, on one sheet 10" x 15" the daily range of the Industrials and daily volume should be shown, and on another sheet 10" x 15," the daily range of the Rails and Industrials. Use two other sheets 10" x 15," one for the hourly record of the Industrials and the hourly volume of the whole market, and another for the hourly record of the Rails and Utilities, a total of four sheets for the entire program.

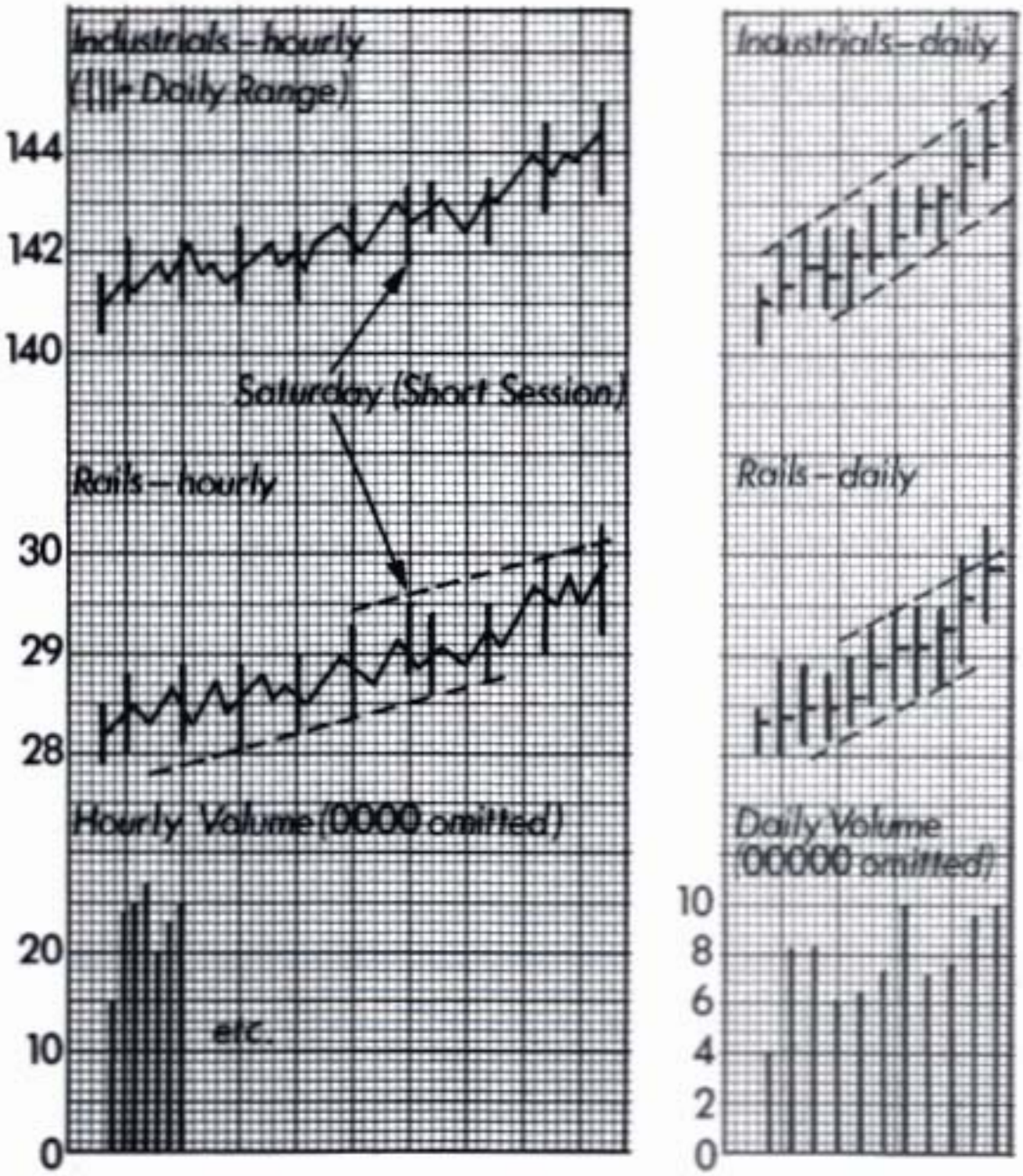

Figure 87

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For individual stocks and commodities, the same general recommendations apply except that the chart paper should be subdivided by fourths instead of fifths.[1]

The weekly range should be charted on forms of the largest size charts available in order to cover a long period, one for an entire cycle. The monthly range, especially of the averages and groups, is important for observing complete cycles.

Figures 53 and 54 in Chapter 6 demonstrate the value of the daily range in order to establish beforehand the extent and pattern of the weekly range. In like manner, the weekly range assists in establishing the extent and pattern of the monthly range. The monthly range assists in establishing the extent of cycles. Likewise, the monthly range facilitates observances of monthly time periods and ratio of waves.

In Figure 87, the vertical allowance for the Industrials is one point per quarter inch. The Rails and Utilities are allowed one point per half inch. The weekly range may be reduced to two points per quarter inch for the Industrials and one point per quarter inch for the Rails and Utilities. The monthly range may be reduced still further.

On the actual chart paper the cross ruled lines are pale green in color, and it will be noted that the chart patterns, which are drawn in black ink, are accentuated against the pale green background, which is highly advantageous in reading waves.

FOOTNOTES

[1] For prices expressed in eighths and quarters rather than decimals.

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CHAPTER XIX

INVESTMENT TIMING

Timing is one of the chief elements in the universe. We separate the times of the year into seasons: spring, summer, fall and winter. We recognize the daylight as the time of activity and the night time for relaxation and rest.

In the matter of investment, timing is the most essential element. *What* to buy is important, but *when* to buy is more important. Investment markets themselves progressively foretell their own future. Waves indicate the next movement of the market by their patterns, whose beginnings and endings are susceptible to definite and conclusive analysis.

Nature's Law embraces the most important of all elements, *timing*. Nature's Law is not a system or method of playing the market but a phenomenon which appears to mark the progress of all human activities. Its application to forecasting is revolutionary.

If one had invested $1,000 in long-term Government bonds in January 1932 and sold in June 1939, a total profit of $5000 (including interest and appreciation) would have resulted in the 89-month period. In January 1932, the yield on market value of Governments was 4%. In June 1939, it was only 2%. As for the stock market, an investment of $1,000 in July 1932 would have been increased by March 1937 to approximately $5,000 without taking dividends into account. This statement is based on the per cent change in the popular averages.

The importance of accurate forecasting has resulted in an immense increase in the use of statistics. A comparison of files of newspapers of fifty years ago with those of today will be a revelation in this respect. Millions are being spent to find a satisfactory forecasting device, but the search will be fruitless without recognition of the fact that the habit of the market is to *anticipate*, not to follow.

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CHAPTER XX

SELECTION OF TRADING MEDIA

Chapter 19 demonstrated that the factor of first importance in stock trading is timing, that is, when to buy and sell. The factor of next importance is what stocks to trade. To guide you in selecting securities (either stocks or bonds) in which trading is contemplated, you should keep uppermost in mind all of the following fundamentals.

Fluctuations and Income

Fluctuations in market value of any security are much greater than its income yield, therefore the paramount factor is the preservation and appreciation of principal as a result of price fluctuations.

Bull Market Tops

In bull markets, each group of the 55 Standard Statistics list shows tops made at different times, like a fan. Bull markets are those which develop five Primary waves during a period of about two years.[1] During such a period, the several groups tend to move rather uniformly, being propelled by the powerful force of the cycle.

Bear Markets

Usually the duration of a bear market is longer than the previous bull market.[2] During the severe and relatively short duration of the decline from 1929 to 1932, the very best stocks and bonds, as well as the lower grades of both, had to be liquidated regardless of their real value. Many traders gained the erroneous impression that the bottoms of all bear markets should repeat that performance.[3] Research indicates many years will elapse before such a drastic decline may be expected.

The final bottoms of bear markets are conspicuous by bottoms of nearly all groups being made simultaneously. This is just the reverse of tops in bull markets. During bear markets, powerful leadership is less pronounced, and this is especially true during rallies. During bear swings, the market as a whole and the several groups become more sensitive to current events and extraneous factors.

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Previous Experience in Trading

Many traders acquire prejudices against certain stocks because of previous unfortunate experiences. To pursue such a course, the trader would eventually find no group free from objection.

Inactive Stocks

A stock that is frequently or occasionally inactive should be avoided for trading, the reason being that waves are not registered. Inactivity clearly indicates that the stock does not enjoy thorough distribution, or else it has reached the fully-developed stage.

Inside Tips

Usually inside tips from well-intentioned friends refer to inactive and low priced stocks. It is preferable to confine one's trading to stocks that are always active.

The Age of Stocks

The life of a stock usually has three stages. The first is the youthful or experimental stage, during which such stocks should be avoided as they have not been properly seasoned. The second is the creative stage. Stocks that fall within this category have reached healthy development, thus making them a desirable medium for trading, provided they are thoroughly seasoned. The third or grown-up stage represents the period of fullest development. Dividends may be uniformly reliable and fluctuations narrow. For these reasons, the certificates become lodged in portfolios and therefore the stock is less attractive for trading purposes.

In summary, when the pattern of a reliable average is favorable, follow these recommendations:

1) Select the groups which perform in harmony with the average.

2) Then select the stocks that move in sympathy with these groups.

3) Always choose stocks that are constantly active, medium priced and seasoned leaders.

4) Diversify funds, i.e., employ more or less an equal number of dollars in from five to ten stocks, not more than one

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stock of a group (for example: General Motors, United Aircraft, U.S. Rubber, U.S. Steel, New York Central, and Consolidated Edison).

FOOTNOTES

[1] A bull market is any advance that contains the necessary five waves. Defining the term "bull market" or "bear market" by duration or percentage price change is arbitrary.

[2] I think this is an unintentional misstatement. Bear markets are almost always shorter than bull markets, and over the long run tend to run about 61.8% of the time required for bull markets (see chapter 4 of *Elliott Wave Principle).*

[3] The same expectation is prevalent today. With the crashes of 1969-1970 and 1973-1974 behind us, most are currently looking for an "instant replay" at the next four-year cycle low. Few can envision the possibility of a less "oversold" bottom, despite the fact that the wave position suggests that, as Elliott puts it, "many years will elapse before such a drastic decline may be expected."

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CHAPTER XXI

PYRAMIDIC SYMBOLS AND HOW THEY ARE DISCOVERED

By permission of the Landone Foundation, I quote three paragraphs from pages 134 and 135 of Mr. Landone's book, *Prophecies of Melchi-Zedik*:

> The total distance around the base of the Pyramid is 36,524.22 Pyramid inches. This is exactly 100 times 365.2422, the number of days in our solar year.
>
> The height of the designed Pyramid is 5,813.02 inches.
>
> These mystic wise men formulated systems of measures of quantity, time, weight and length, and squares and cubes of the lengths. Since all of these are based on the length of the side of the square, and since that length was derived from the circle whose circumference was equal to the days of the solar year, and since the time of revolution of earth around the sun is eternal, these mystics created the only system of measurement forever exact and eternally the same.[1]

Having ascertained the circumference of the Great Pyramid Gizeh at its base, the investigators cast about for some known fact that would correspond. In this instance, it was the number of days in a year, down to the last fraction. In other words, two facts are associated, and thus establish the purpose of the symbol from which forecasts may be made.

I discovered rhythm in human activities and later learned that it is symbolized in the Great Pyramid. Egyptologists failed to recognize this symbol because they were not aware of rhythm in nature and human activities. This symbolism is described in Chapters 1 and 2, and demonstrated in Chapters 8 through 14.

My contribution to pyramidic symbolism follows, in the order named:

1) Discovery of patterns, degrees and numbers of waves.

2) Association of the Fibonacci number series, Hambidge's discoveries in its application to art and botany, and Pythagoras and his cryptic diagram.

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3) Diagrams of the Great Pyramid from all angles.
4) Correlation of the Fibonacci ratio and the elevation of the pyramid — 5,813 inches (which is composed by the three basic numbers of the Fibonacci Summation Series: 5, 8 and 13) — to the base of the pyramid.
5) Application of the Summation Series to human activities in many fields.

Ratio Ruler

Draughtsmen use an instrument called a "proportional divider." The fulcrum is movable in order that any ratio may be obtained. These instruments are expensive and now practically unobtainable. I have therefore devised a handy substitute for ascertaining, without mathematical calculations, when the ratio between any two movements, in either amplitude or time, is 61.8%. I will send one on receipt of 25 cents in check, money order, coin or postage stamps.

R. N. Elliott
No. 63 Wall Street
New York (5), N. Y.

FOOTNOTES

[1] For more on this subject, read Peter Thompkins' *Secrets of the Great Pyramid* (Harper & Row, 1971).

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CHAPTER XXII

THE LAW OF MOTION

Dictionary definitions of the word "cycle" are several: "a period of time," "an entire turn or circle," "a spiral leaf structure," "a series that repeats itself." Attention has been mainly directed to cyclical rhythms in the stock market where they are very pronounced. Every movement, from wheels to planets, is cyclical. All cycles have subdivisions or degrees which facilitate the measurement of their progress.

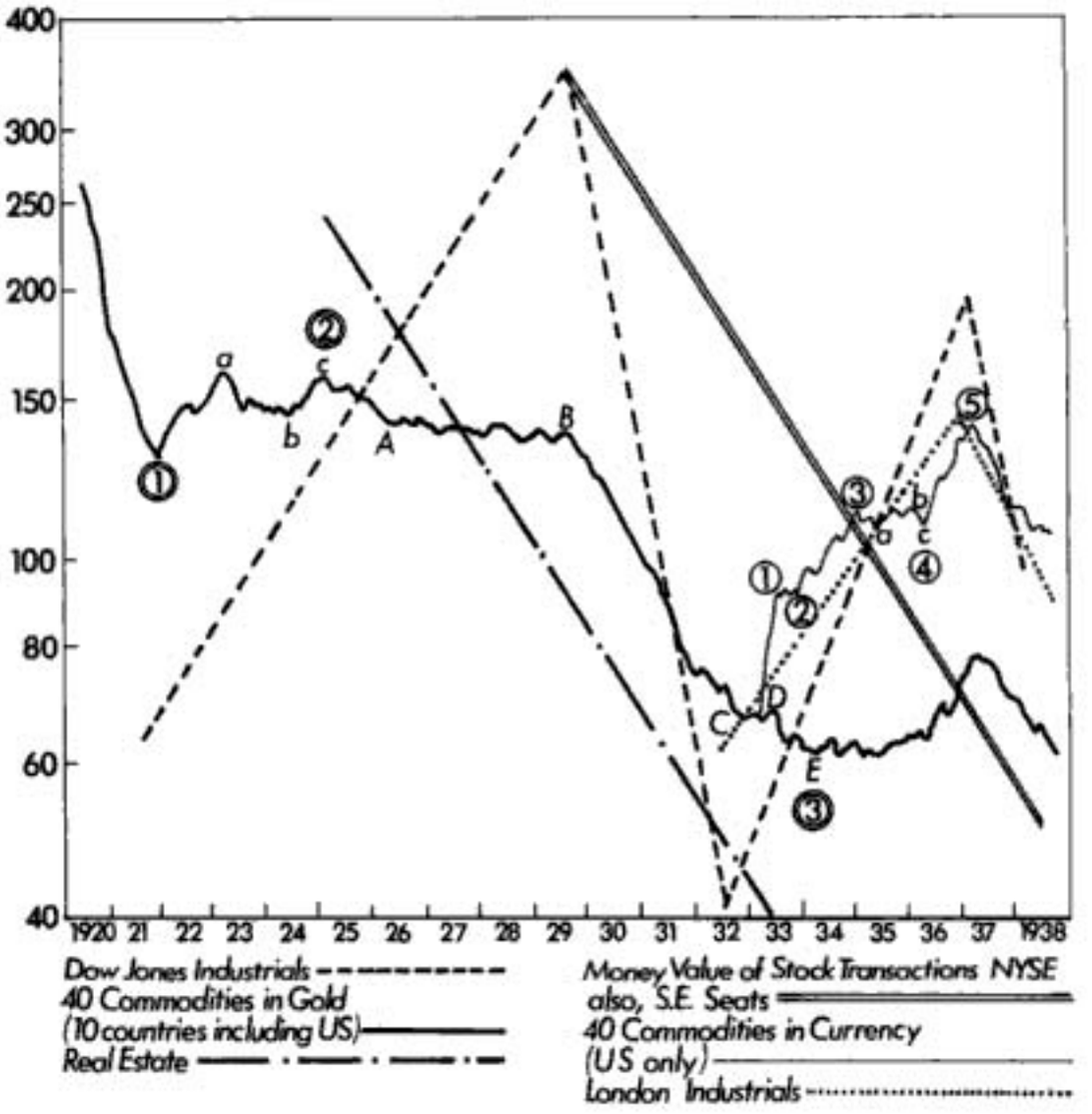

Figure 88

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Planets travel in orbits and at speeds peculiar to each. The Earth revolves on its own axis and once in every twenty-four hours divides night from day. It encircles the sun once a year and thus provides the four seasons. The mechanism of planetariums may be turned backward or forward to show the relative positions and movements of planets and their satellites at any time, past, present or future.

Some elements never change their patterns. For example, water constantly observes complete cycles. The sun's rays on the ocean's surface cause water to evaporate. Air currents move the vapor until it encounters cooler atmosphere over hills and mountains, which in turn condenses the vapor. Gravity draws the water back to earth, where it again joins the sea.

Nations experience political, cultural and economic cycles, both great and small. Patterns of human life are observed in mass movements such as migration to and from cities, average age, birth rate, etc.

Figure 88 demonstrates that one human activity cannot be depended upon to forecast another. Therefore, the pattern of each factor must be analyzed by its own waves and not by extraneous factors. During the period from 1939 to April 1942, the lag in the stock market compared to that of business produced much discussion but no explanation. The answer is that eight years of inflation during the 'Twenties created a thirteen-year triangle to 1942.

The graph of temperature shown in Figure 89 is important. Temperature is not associated with human activities; nevertheless cyclical waves, over a period of one hundred ten years, formed a perfect pattern of five waves upward.

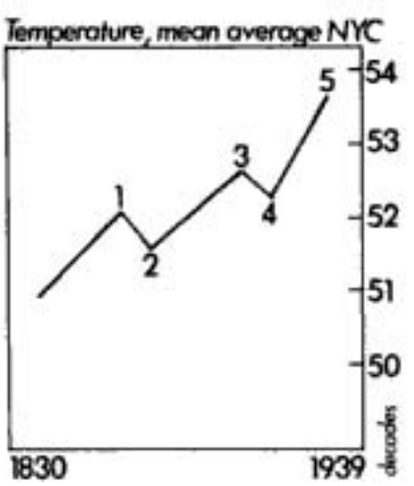

Figure 89

Periodicities between peaks and valleys of many items, such as epidemics, production of lynx pelts, tent caterpillars, salmon runs, etc. are fairly common. In human activities, cycles are not all uniformly spaced. They follow wave patterns in accordance with the Fibonacci Summation Series.

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Dynamic symmetry is a law of nature and therefore the basis of all forms of activity.

Since the discovery that the earth is round, the cycle has been the subject of much research. There are three classes of cycles. First are uniform periodicities between peaks and between nadirs, such as day and night, seasons of the year, tides, epidemics, weather, swarms of insects, etc. (I recommend an article by Donald G. Cooley entitled "Cycles Predict the Future" in *Mechanix Illustrated*, February, 1944). Second are periodical fluctuations caused, in some instances, by astronomical aspects. Third are patterns, time and ratio, in accordance with a summation series disclosed by the mathematician Fibonacci.

A pamphlet entitled "The Relation of Phyllotaxis to Mechanical Laws" by Professor A.H. Church of Oxford is very interesting. Phyllotaxis is the leaf arrangement of plants. Mr. Jay Hambidge spent many years researching records, and is the author of a book entitled *Practical Applications of Dynamic Symmetry*. One chapter is entitled "The Law of Phyllotaxis." A copy of pages 27 and 28 thereof is repeated in Chapter 2 of this treatise.

Dr. William F. Petersen, Professor of Pathology at the University of Illinois, is the author of a very important and interesting book entitled *The Patient and the Weather*. Therein are graphed the progress of disease. The patterns are precisely the same as any other activity, including the stock market.

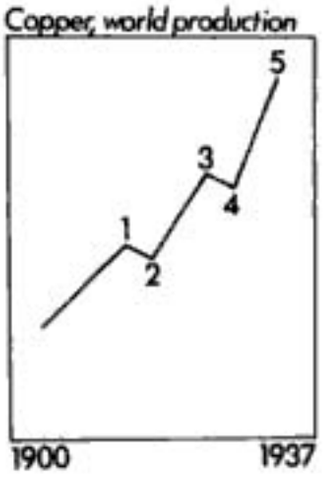

Figure 90

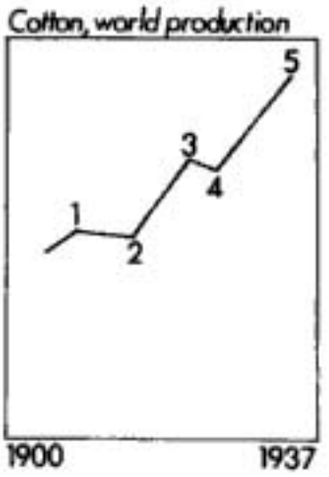

Figure 91

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CHAPTER XXIII

THE GREAT DEPRESSION

This common expression is a misnomer insofar as the stock market is concerned. The decline of stocks from 1929 to 1932 was a correction of the previous advance, as shown in Figures 68 and 82. The dictionary defines "depression" as "below the general surface." The Grand Canyon of Colorado is a "depression" because it is far "below the general surface" for many miles on either side. From the top of the Rockies to the Pacific Ocean is a "correction," so to speak, not a "depression," notwithstanding the fact that the Pacific Coast is much lower than the bottom of the Colorado Canyon. There is no such thing as a "depression" in the stock market. If there were, it would be correct to say that from the Rockies to the Pacific is a "depression." There are numerous reasons for this erroneous expression.

The general public, which has no interest in stocks, may have enjoyed and become accustomed to continuous employment in the period from 1921 to 1929. Naturally, they assumed it to be a normal condition. When the 1929-1932 decline occurred, many people found it difficult to make both ends meet. Naturally, it seemed to them to be a "depression."

During the advance in the stock market from 1921 to 1929, traders in stocks were told that we were in a "New Era," "never would decline," "just keep on going," etc. Many common practices were "awful but lawful."

Many politicians are responsible for the erroneous use of the word "depression." During the early part of the 1929-1932 decline in stocks, when Mr. Hoover was President, some said that prosperity was "just around the corner." During the presidential campaign in 1932, the Democrats blamed the Republicans and Mr. Hoover for the "depression." The results of elections in 1932, 1936 and 1940 demonstrated that most voters believed the New Dealers. The Republicans blamed the New Dealers for the decline from 1937 to 1942. The falsity of this political claptrap, whether sponsored by Democrats or Republicans, is demonstrated graphically in Chapters 10 and 11.

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The stock market never has a "depression;" it only corrects a previous advance. A cycle is action and reaction.

Many services and financial commentators in newspapers persist in discussing current events as causes of advances and declines. They have available the daily news and market behavior. It is therefore a simple matter to fit one to the other. When news is absent and the market fluctuates, they say its behavior is "technical."[1] This feature is discussed in Chapter 17.

Every now and then, some important event occurs. If London declines and New York advances, or vice versa, the commentators are befuddled. Mr. Bernard Baruch recently said that prosperity will be with us for several years *"regardless of what is done or not done."* Think that over.

In the "dark ages," the world was supposed to be flat. We persist in perpetuating similar delusions.

FOOTNOTES

[1] Sound familiar? Decades later, this practice is as prevalent as ever.

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CHAPTER XXIV

EMOTIONAL CYCLES OF INDIVIDUALS

Cycles of mass psychology in human activities are demonstrated by graphs on other pages. A scientist now discloses his studies in the emotional cycles of individuals. In the November 1945 issue of the *Red Book* appears an article written by Mr. Myron Stearns in which he reports the results of studies, over a period of seventeen years, made by Dr. Rexford B. Hersey, scientist. The McCall Publishing Corporation has given me permission to quote from the article. I have underlined certain numbers and refer to them in the last paragraph.

> Dr. Hersey is a Rhodes scholar, a graduate of the University of West Virginia and the University of Berlin.... Dr. Hersey wrote a book on his findings called "Workers' Emotionalism in Shop and Home," which was published by the University of Pennsylvania in 1932. Far-sighted officials of the Pennsylvania Railroad have supported Hersey's work.... Dr. Hersey was invited to go to Germany. He found that workers there react the same as Americans.
>
> The periodic rise and fall of human emotions are vouched for by Dr. Hersey, who has been observing and studying them for more than seventeen years. His researches indicate that with all of us, high spirits and low spirits follow each other with a regularity almost as dependable as the tides. He found that all the checks he made on each man, over a period of weeks, fell into a fairly regular pattern. Dr. Hersey's chart showed that about every *5th* week he became more critical.
>
> You take it for granted that a run of bad luck, in time, gets you down unless you exert strong will power. That good news, on the other hand, raises you to the top of the world. Now science says you are wrong. If you are full of energy and enthusiasm, good news will lift you higher still. Or if you are plugging dolefully through "Blue Monday," good news may help temporarily, but that is about all.
>
> Human emotions ordinarily rise and fall at regular intervals of from *33 to 36* days. The ups and downs of these factors resemble stock market charts.

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> The blood cholesterol seems to have a cycle of about *56* days.... The thyroid output, which determines the total emotional cycle, usually makes a round trip from low to high and back in from *4 to 5* weeks.... In hyperthyroid cases, cycles may be as short as *3* weeks.
>
> There seems to be no difference in cycle length between men and women.

The Fibonacci Summation Series includes the numbers 3, 5, 34 and 55. Time cycles are not always exact. Therefore when a period is given as "33 to 36," the basic period is 34, more or less. The basic period of 55 includes "56."

When members of your family, friends, employees, employers, customers, etc. annoy you, I recommend a review of this chapter. Other people have their cycles the same as you do. Do not allow your cycle to tangle with another.

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PYTHAGORAS

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CHAPTER XXV

PYTHAGORAS

Pythagoras, a great man, lived in the fifth century B.C. and made an impression on history that is seldom approached. The reader is urged to review a report on his activities in the *Encyclopedia Britannica*. He was a persistent investigator of the discoveries of others and visited Egypt, which is often mentioned as "The Cradle of Civilization."

Pythagoras is prominently known for his studies in mathematics. Insofar as I have seen, the most important of his discoveries has been overlooked. He drew a triangle and placed thereunder the cryptic title "The Secret of the Universe." This feature is described extensively in Chapter 2.

In 1945, Mr. John H. Manas, Ph.D., President of the Pythagorean Society, wrote a book entitled *Life's Riddle Solved*, in which he disclosed a picture of Pythagoras, and I have permission from Mr. Manly P. Hall, head of The Philosophical Society of Los Angeles, California, to reproduce it (see opposite page).

There are many symbols in this picture, but we will focus our attention on two items, the pyramid which Pythagoras holds in his right hand and the three squares in the lower right hand corner of the picture.

The pyramid represents the Great Pyramid of Gizeh, presumably built about 1000 B.C., although some students argue that it is much older. This Pyramid is classed as one of the "Seven Wonders of the World." The precision of measurement and placing in position of the immense marble stones employed are remarkable. However, this feature is insignificant when compared to the knowledge symbolized. It may be that a paragraph in the Bible (Isaiah 19:19) refers to it. It reads, "In that day shall there be an altar to the Lord in the midst of the land of Egypt, and a pillar at the border thereof to the Lord."

In Chapter 2 are graphed different views of this pyramid. For convenient reference, the view of one side is repeated in Figure 92.

The base of one side is 9,131 inches. The base of the four sides measures 36,524.22 inches. This symbolizes the number of

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days in our solar year, 365¼ days. Our calendar year is 365 days, but every fourth year an extra day must be added (February 29th). This is "leap year." The total days in four years is 1,461.

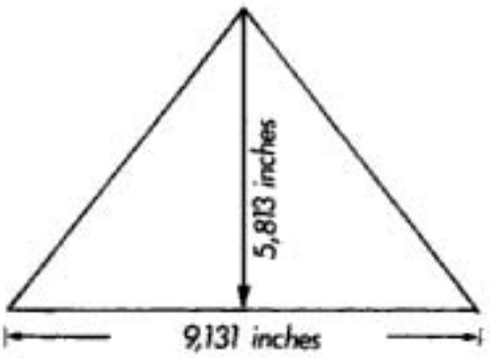

Figure 92

The elevation from base to top is 5,813 inches. The base of one side is 9,131 inches. The ratio of the elevation to the base is 63.6%. The pyramid has five surfaces and eight lines. 5 plus 8 equals 13. Note the elevation, 5,813 inches — 5, 8 and 13. 5 is 62.5% of 8. 8 is 61.5% of 13. Note the application of this ratio in Figure 71.

In human activities, an advancing movement is composed of five waves, three up and two intervening corrections. A cycle is composed of five waves up and three waves down, total eight. This is true of all degrees, Minor, Intermediate and Major. See Chapter 4.

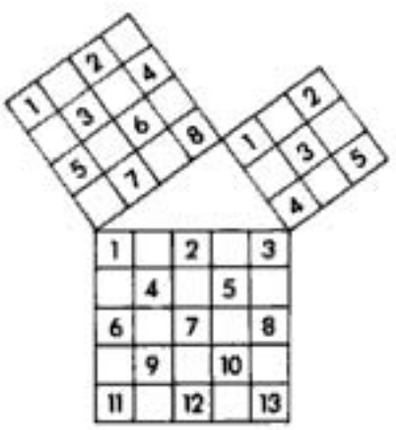
Figure 93

The diagram shown in the lower right hand of the Pythagoras picture is reproduced as Figure 93. I have numbered the squares which are shaded in the picture. The upper right square has five shaded squares. The upper left square has eight shaded squares. The lower square has thirteen shaded squares. These numbers correspond to the number of inches elevation of the Pyramid.

The same three squares are shown in Figure 94. The smaller squares are now numbered in a different manner, that is:

— 1, 2 and 3, where the square of 3 equals 9,

— 1, 2, 3 and 4, where the square of 4 equals 16, and

— 1, 2, 3, 4 and 5, where the square of 5 equals 25.

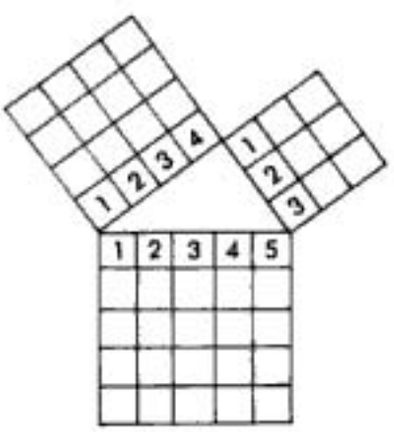
Figure 94

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The theorem is that the square of the hypotenuse of a right triangle is equal to the sum of the squares of the other two sides. The discovery of this solution is the best known of Pythagoras' works.

Now return to the Fibonacci Series, 1 to 144. These numbers form the "Secret of the Universe" to which Pythagoras referred. The best example in botany is the sunflower, described by Mr. Jay Hambidge in Chapter 2. In bodies of humans and animals, the numbers 3 and 5 apply. There are many other symbols in the picture of Pythagoras,[1] which is an idealistic conception.

FOOTNOTES

[1] Elliott trimmed the picture to a 5" x 8" Golden Rectangle in his reproduction.

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CHAPTER XXVI

MISCELLANEOUS[1]

Volume of Waves

In an advance, the volume of wave 5 does not exceed the volume of wave 3; occasionally it is less. So long as volume increases, another advance is due, until a new high registers without an increase in volume. See Figure 95. Note also that the volume of wave 2 is less than the volume of wave 1. It is a favorable indication.[2]

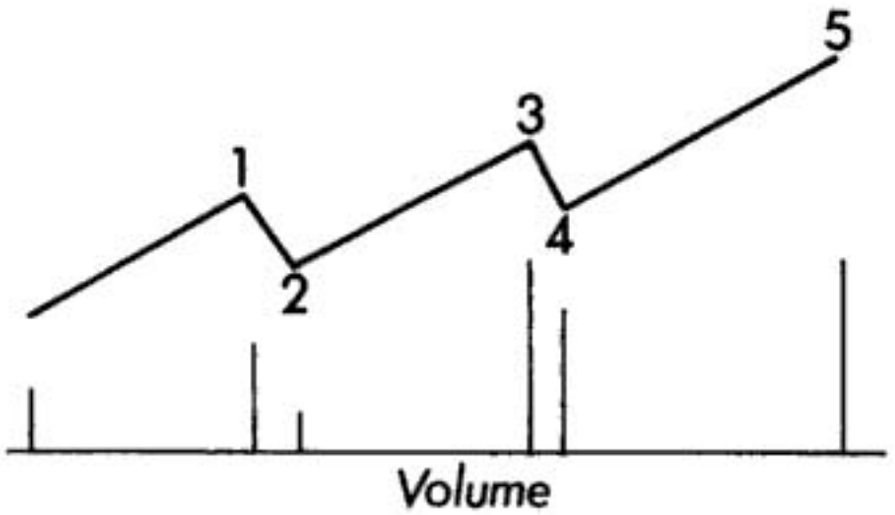

Figure 95

Circles

The word "cycle" means circle. Occasionally this feature appears in graphs of stocks. The circle in Figure 96 is divided into four segments, A, B, C and D. When a graph is rounding downward, as in segment C, and the downward pattern has been completed insofar as the number of waves is concerned, it may be expected that at the bottom, one or more series of "three-wave movements" may develop and then be followed by an accelerated advance as per segment D. The entire picture down and up will then resemble segments C and D combined, or in other words, the lower half of the circle.

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The flood of strikes around the end of 1945 is simply the swing of the pendulum from left to right, 1 to 2 then to 3, as in Figure 96. Before labor was organized (previous to 1906), many, if not most employers, were autocratic, ruthless and heartless to employees, competitors and the public. The behavior of some strikers today is not worse than the behavior of management in early days. Every nation, human activity and individual has its own cycle — some long, others short, depending on the class and extent of each.

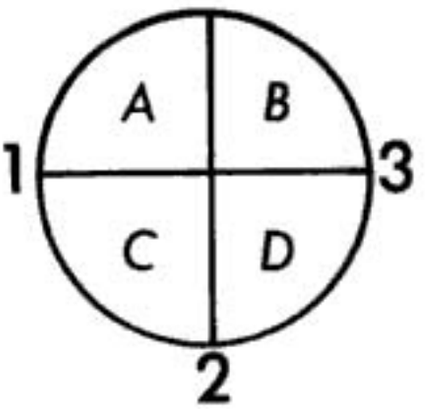

Figure 96

The "A-B Base"

The A-B base[3], shown in Figure 53, Chapter 6, is occasionally composed of double threes or even triple threes, as described in Chapter 5. This is especially true when a rounding bottom is made, as discussed in the first paragraph under "Circles," above.

FOOTNOTES

[1] This chapter originally contained several paragraphs that fit directly into earlier sections of the book. Apparently Elliott thought of some additional points after the bulk of the manuscript was completed and typed. I have moved these paragraphs to the appropriate areas in the previous text.

[2] That is, indicative that wave 2 is indeed in progress and that wave 3 will follow.

[3] The "A-B base" seems fine as a description for the first two waves of an A-B-C irregular correction. Elliott's reference to Figure 53 seems at first to indicate that that is what he meant. However, in the discussion of the 1942-1946 bull market that follows, he uses the A-B base concept as an *additional* wave phenomenon which can occur between the end of a corrective wave and the beginning of a cardinal, or impulse wave. The addition of this idea is unnecessary, since a construction with that look has been, in our experience, merely part of the previous corrective wave or the next impulse wave. Apparent occurrences of an "A-B base" always have another explanation, one more consistent with the Wave Principle.

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CHAPTER XXVII

THE 1942-1945 BULL MARKET

The thirteen-year triangle in the Dow-Jones Industrial Average from 1928 to April 1942 is graphed in Figure 71. As described in Figures 31, 32, 37 and 38 in Chapter 5, thrust follows a triangle.

In Figure 97, the Dow-Jones Industrial Average is graphed. Each vertical line represents the range of one month. Major wave ① is short. Major wave ③ is longer, and its Intermediate waves are indicated by small letters a, b, c, d and e. Note the inner base line at waves b and d. Major wave ④ is composed of three Intermediate waves indicated by the small letters a, b and c from July to November, 1943. Major wave ⑤ runs from November 1943 to December 10, 1945. Waves A and B consumed five months.[1] In the daily and weekly range for this period, all waves were composed of three waves each (see Figure 53).

From letter B to the number 1 is Intermediate wave 1, as it is composed of five waves of the daily range. Intermediate wave 3 is composed of five waves indicated by small letters a, b, c, d and e (extended). Extensions never appear in more than one of three impulse waves 1, 3 and 5 (see Figures 39 through 44). Intermediate wave 4 is the same as Intermediate wave 2. Intermediate wave 5 is composed of five waves of the weekly range and reached 196.59 on December 10, 1945. The parallel line was slightly exceeded. Subsequent to December 10, 1945, an irregular top[2] reached 207.49 on February 4, 1946.

The pattern of Major wave ⑤ from November 1943 to December 1945 is unusual in one respect. It hugged the base line from November 1943 to August 1945, instead of heading straight for the parallel line. The cause of this abnormality was a new crop of reckless speculators with more money than experience who favored low-priced stocks instead of seasoned issues of the type represented by the popular averages. In order to overcome this abnormality, I devised a Special Index that behaved normally, as will be seen in the lower chart of Figure 97. Note that Major wave ⑤ does not hug the base line, but instead follows a straight line from beginning to end.

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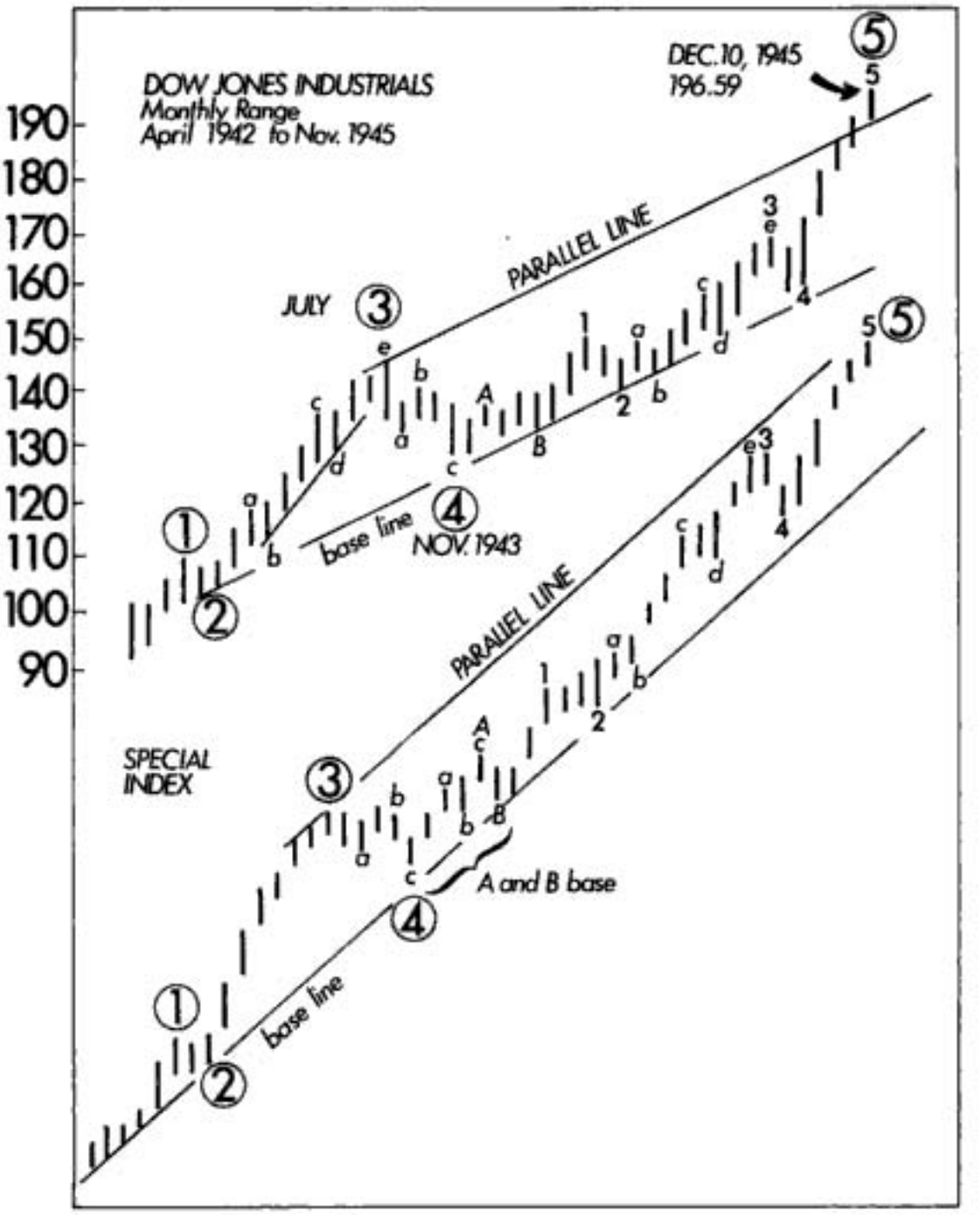

Figure 97

Note: In the upper graph in Figure 97, the Industrial Average registered its "OT" (orthodox top) at 196.59 on December 10, 1945. On going to press, an irregular top, wave B, is in process of formation. This should be followed by wave C (see Chapter 7).[3]

I expect a sub-normal bear market as illustrated in Figure 76, Chapter 12.[4]

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FOOTNOTES

[1] Counting A and B as waves 1 and 2 of an extended wave ⑤ would have allowed Elliott to anticipate the May 1946 peak as the orthodox top.

[2] The December peak marked the end of wave 3. The "irregular top" of February preceded a clear five-wave decline, as would have been expected. However, this top was wave B of an A-B-C irregular correction that constituted wave 4. Wave 5 then carried to the final orthodox peak at 212.50 in May 1946.

[3] Elliott would have been correctly bearish for the 1946 crash, since he was expecting the wave C decline. Since the bottom of the decline was just above 160, he probably would have "called" the bottom as well, since that bottom was at the level of the previous wave 4.

[4] The only forecasting problem that Elliott would have encountered later would have been in expecting the advance to begin again *immediately*, since he was expecting a sub-normal bear market as a result of the thrust idea, which stemmed from his thirteen-year triangle interpretation. While the lows at 160 were never seriously penetrated, the market did not take off until 1949.

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REVIEW AND CONCLUSION

Figure 71 depicted a thirteen-year triangle from 1928 to 1942. By reference to Chapter 5, it will be noted that triangles have always appeared as wave 4 and that wave 5 exceeds the top of wave 3.

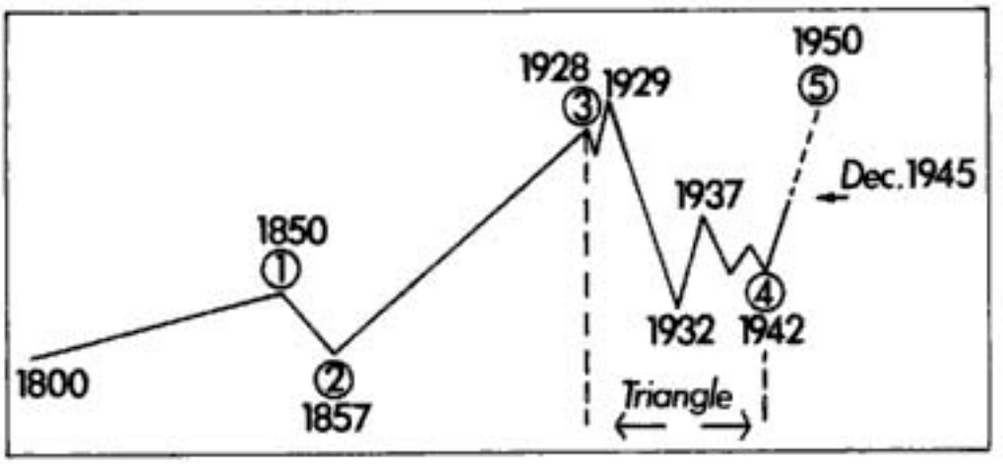

Figure 98

Figure 98 is a graph of the market from 1800 to December 1945.[1] Wave ① from 1800 to 1857 is based on business history, as stock market records are not available previous to 1857. November 1928 is the orthodox top of wave ③ from which the triangle (wave ④) started. The triangle ended, and the "thrust" (wave ⑤) started, in April 1942. A "thrust" has always exceeded the top of wave ③, which in this case is November 1928.

The movement from 1921 to November 1928 was composed of three bull markets and two intervening sub-normal bear markets. Thus far, in December 1945, one bull market has registered. It would therefore appear logical that the pattern and extent above 1942 would resemble the movement from 1921 to 1928, i.e., three bull markets and two intervening, sub-normal bear markets.

The Dow-Jones Industrial Average started in 1921 at 64 and ended in November 1928 at 299, for a 235-point advance. The thrust started April 1942 at 93. 93 plus 235 equals 328, or 29 points above November 1928, the end of wave ③.[2] The thrust may consume eight years, ending in 1950, similar to 1921-1929. The immense amount of currency in the hands of the public due to financing of the second World War would seem to confirm this indication.

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There is a different sequence of procedure now as compared to 1921-1928. During 1921-1928, the first wave was a normal bull market without inflationary symptoms. The fifth wave ending in November 1928 was decidedly inflationary. Now, the *first* wave, from 1942 to 1945, disclosed inflationary characteristics. Low-priced stocks of questionable value surged ahead at the expense of the "blue chips." *The New York Sun* selected ninety-six stocks that advanced phenomenally. Every stock started at some figure below $2 per share. The highest rate of advance was 13,300%. The lowest rate of advance was 433%. The average for the group was 2,776%.

The patterns of graphs shown on previous pages furnish a historic outline of the United States. Its development is marvelous for many reasons:

— Geographic position, shape and boundaries: A square, bounded on two sides by large oceans, and on two sides by friendly neighbors.

— Latitude and climate: Semi-tropical, thus facilitating agriculture.

— Natural resources: Gold, iron, coal, oil, timber and water-ways.

— Genius and individual initiative: The number and value of patents from 1850 to 1929 is marvelous. Attention is invited to Chapter 14. Note that the graph of patent applications (Figure 81) coincides with waves of the stock market, both in time and pattern, which in turn reflects business activity and mass psychology.

— Democratic ideals: The form of government stimulates individual initiative. This does not imply that perfection has been achieved, but it does suggest that we may be on the right road.

FOOTNOTES

[1] Once again, with extremely limited data, Elliott outlines correctly the entire Grand Supercycle from the late 1700s, just as he did in his essays of 1941 and 1942 (see *Selected Essays* section). His prediction of a new high above 1929 was also correct. However, in this depiction he shows a short time frame ending in 1950, which is all out of proportion to the other four waves. It seems that even a cursory

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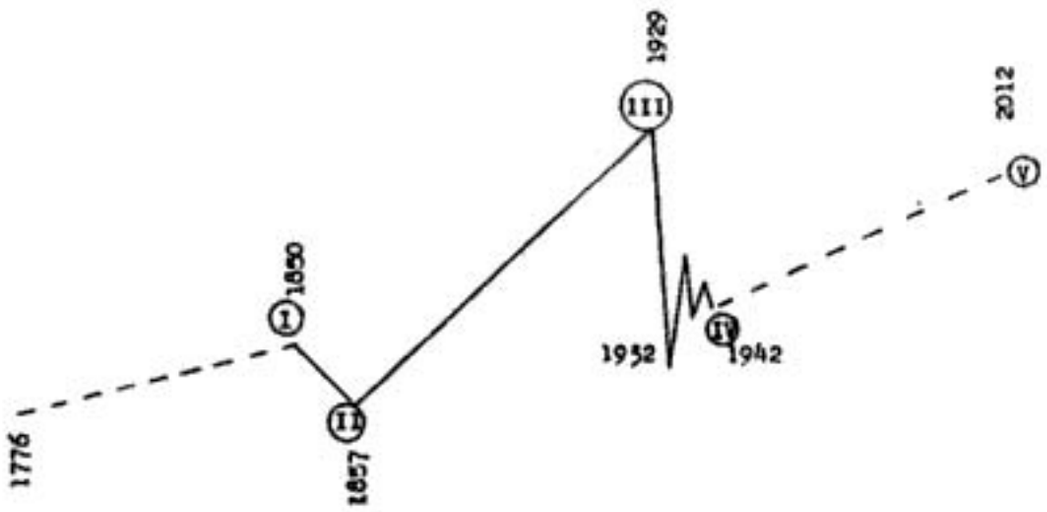
examination of the chart would suggest a top much further out than 1950, and much higher than 328 on the Dow. The problem again is Elliott's 13-year triangle, since thrusts following triangles are generally swift and short. The chart that Elliott produced in his Interpretive Letter dated August 1941 and again in his Educational Bulletin of October 1942 showed a more accurate beginning date of 1776 and a more suitable projected ending date of 2012, as shown below.



[2] This computation is based on the tenet that the thrust, or fifth wave following a horizontal triangle, is generally about as long as the widest part of the triangle.

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